Exhibit 70

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Basic Financial Statements for the Years Ended June 30, 2008 and 2007 and Independent Auditors' Report

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Basic Financial Statements for the Years Ended June 30, 2008 and 2007 and Independent Auditors' Report

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PARISSI P.S.C.
Certified Public Accountants, Tax & Business Advisors

Independent Auditors' Report

To the Board of Trustees of the
Employee's Retirement System of the Government of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying statements of plan net assets of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the System) (a pension trust fund of the Commonwealth of Puerto Rico) as of June 30, 2008 and 2007 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2008 and 2007, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedules of employers' contributions, funding progress and notes to supplementary schedules on pages 2 through 11, and 46 through 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Parissi, P.S.C.

April 27, 2009
San Juan, Puerto Rico

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PARISSI P.S.C.
2406734
PUERTO RICO
CERTIFIED PUBLIC ACCOUNTANTS

650 Muñoz Rivera Ave., Suite 502, San Juan, PR 00918-4149 • PO Box 195607, Hato Rey Station, San Juan, PR 00919-5607
Phone 787.641.9801 • Fax 787.641.9809 • www.parissicpa.com

Introduction

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the System) administers retirement and other plan member benefits, such as personal, cultural and mortgage loans, occupational and non-occupational disability annuities and death benefits. The System is a pension trust fund of the Commonwealth of Puerto Rico. Pension trust resources are only held in trust to pay retirement benefits to plan members. The System presents the annual basic financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal years ended June 30, 2008 and 2007. The financial performance of the System is discussed and analyzed within the context of the accompanying basic financial statements and disclosures.

Overview of the Basic Financial Statements

The Management's Discussion and Analysis introduces the System's basic financial statements. The basic financial statements include: (1) Statements of Plan Net Assets, (2) Statements of Changes in Plan Net Assets, and (3) Notes to the Basic Financial Statements. The System also includes additional information to supplement the Basic Financial Statements.

Statements of Plan Net Assets and Statements of Changes in Plan Net Assets

Both these statements provide information about the overall status of the System. The System uses accrual basis of accounting to prepare its financial statements.

The Statements of Plan Net Assets includes all of the System's assets and liabilities, with the difference reported as net assets held in trust for pension benefits. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The Statements of Changes in Plan Net Assets reports changes in the System's net assets held in trust for pension benefits during the year. All current year additions and deductions are included regardless of when cash is received or paid.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for an understanding of the data provided in the Statements of Plan Net Assets and Changes in Plan Net Assets.

Required Supplementary Information

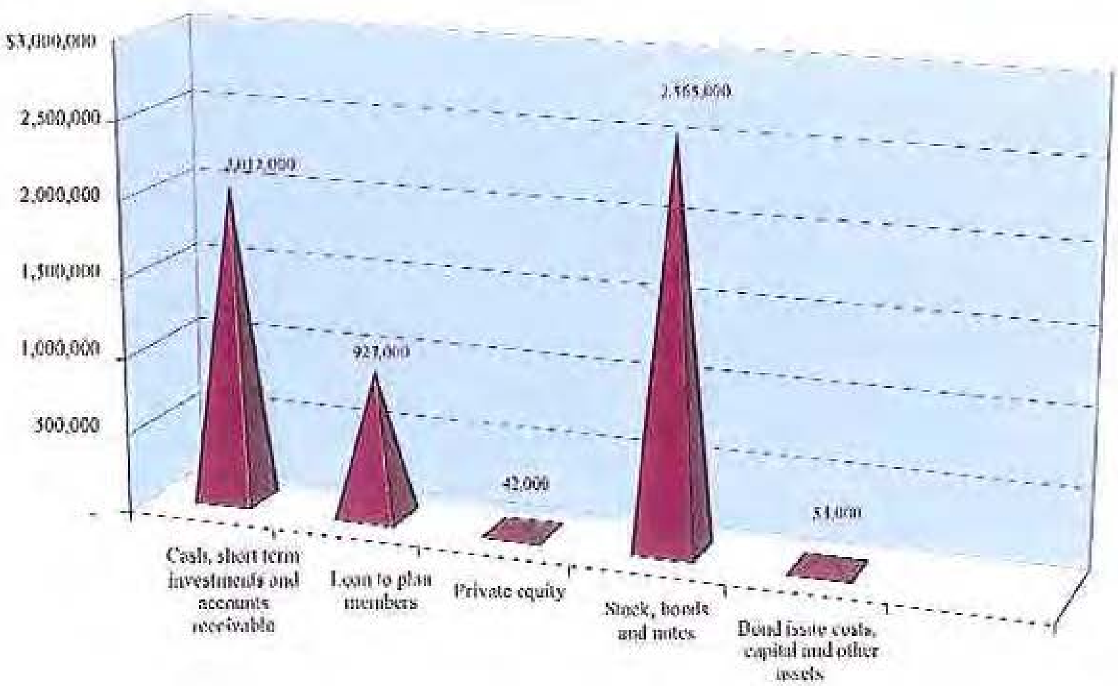
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System provides the retirement benefits to employees of the Commonwealth of Puerto Rico. The System has $5,600 and $2,931 million in total assets as of June 30, 2008 and 2007, respectively. This amount consists of the following:

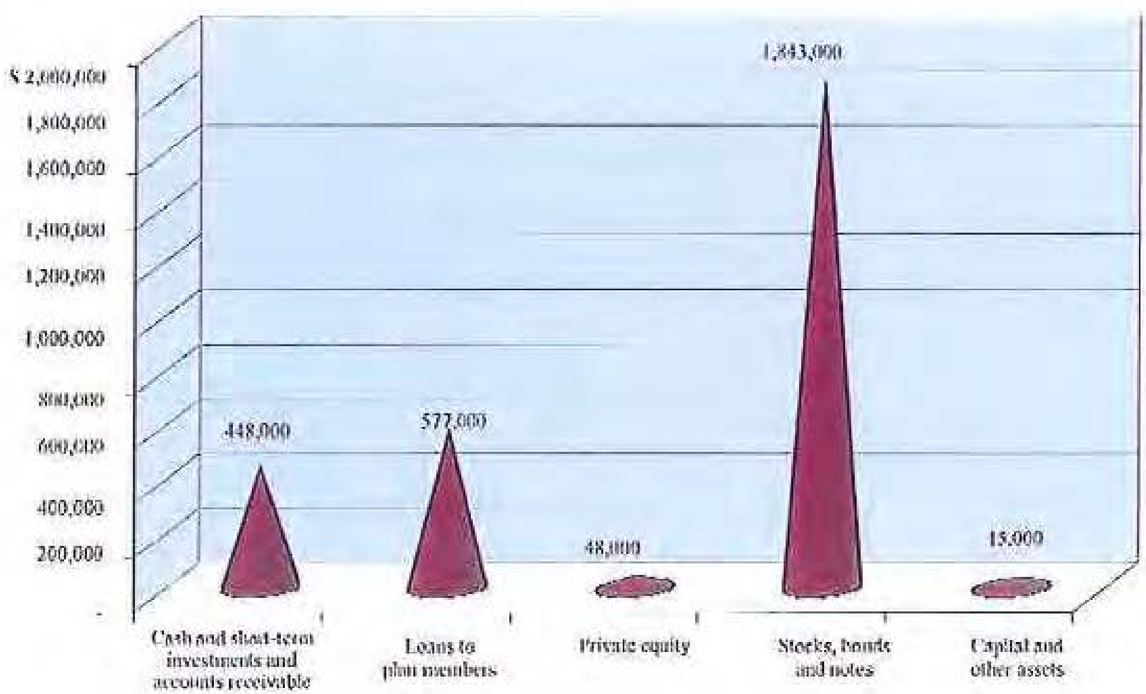
- $2,012 million in cash and short-term investments and accounts receivable
- $927 million in loans to plan members
- $42 million in private equity investments
- $2,565 million in stocks, bonds and notes
- $54 million in bond issue costs and capital and other assets

(In thousands)



For fiscal year ended June 30, 2007, consists of the following:

- $448 million in cash and short-term investments and accounts receivable
- $577 million in loans to plan members
- $48 million in private equity investments
- $1,843 million in stock, bonds and notes
- $15 million in capital and other assets



Employee's Retirement System of the Government of the Commonwealth of Puerto Rico
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

The following provides a comparison of certain items within the financial statements (amounts in thousands):

	2008	2007	Total Dollar Change	Total Percentage Change
Assets				
Cash and short-term investments and total accounts receivable	$ 2,012,042	447,572	1,564,470	349.5%
Investments	2,607,798	1,890,567	717,231	37.9%
Loans to plan members	926,831	577,314	349,517	60.5%
Bond issue costs, capital assets and other	53,595	15,847	37,748	238.2%
Total assets	5,600,266	2,931,300	2,668,966	91.1%
Liabilities				
Accounts payable and accrued liabilities	9,310	10,125	(815)	-8.0%
Insurance reserve for loans to plan members and investment purchases	16,559	11,086	5,473	49.4%
Bond payable	2,942,184	—	2,942,184	100.0%
Bond interest payable	12,181	—	12,181	100.0%
Other liabilities	12,946	18,588	(5,642)	-30.4%
Total liabilities	2,993,180	39,799	2,953,381	7420.7%
Total net assets held in trust for pension benefits	$ 2,607,086	2,891,501	(284,415)	-9.8%

	2007	2006	Total Dollar Change	Total Percentage Change
Assets				
Cash and short-term investments and total accounts receivable	$ 447,572	163,651	283,921	173.5%
Investments	1,890,567	2,068,653	(178,086)	-8.6%
Loans to plan members	577,314	528,552	48,762	9.2%
Capital assets and other	15,847	15,286	561	3.7%
Total assets	2,931,300	2,776,142	155,158	5.6%
Liabilities				
Accounts payable and accrued liabilities	10,125	9,246	879	9.5%
Insurance reserve for loans to plan members and investment purchases	11,086	148,686	(137,600)	-92.5%
Line of credit	—	60,000	(60,000)	-100.0%
Other liabilities	18,588	16,879	1,709	10.1%
Total liabilities	39,799	234,811	(195,012)	-83.1%
Total net assets held in trust for pension benefits	$ 2,891,501	2,541,331	350,170	13.8%

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico
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Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

	2008	2007	Total Dollar Change	Total Percentage Change
Additions				
Contributions:				
Employers	$ 380,833	374,394	6,439	1.7%
Participating employees	345,614	338,791	6,823	2.0%
Other	141,724	69,097	72,627	105.1%
Net investment income (loss)	(93,910)	433,970	(527,880)	-121.6%
Other	47,796	36,872	10,924	29.6%
Total additions	822,057	1,253,124	(431,067)	-34.4%
Deductions				
Retirement and other benefits	968,202	824,755	143,447	17.4%
Refunds of contributions	40,366	33,305	7,061	21.2%
General and administrative	31,610	29,207	2,403	8.2%
Interest on Bond payable	46,996	—	46,996	100.0%
Other	19,298	15,687	3,611	23.0%
Total deductions	1,106,472	902,954	203,518	22.5%
Net increase (decrease) in net assets	$ (284,415)	350,170	(634,585)	-181.2%

	2007	2006	Total Dollar Change	Total Percentage Change
Additions				
Contributions:				
Employers	$ 374,394	382,877	(8,483)	-2.2%
Participating employees	338,791	342,697	(3,906)	-1.1%
Other	69,097	15,495	53,602	345.9%
Net investment income	433,970	292,816	141,154	48.2%
Other	36,872	39,954	(3,082)	-7.7%
Total additions	1,253,124	1,073,839	179,285	16.7%
Deductions				
Retirement and other benefits	831,658	804,315	27,343	3.4%
Refunds of contributions	33,305	22,373	10,932	48.9%
General and administrative	29,207	28,534	673	2.4%
Other	8,784	5,157	3,627	70.3%
Total deductions	902,954	860,379	42,575	4.9%
Net increase in net assets	$ 350,170	213,460	136,710	64.0%

- The System assets exceeded liabilities by $2,607 million (net assets) for the fiscal year reported compared to the prior year, for which assets exceeded liabilities by $2,891 million.
- Based on the last actuarial valuation at June 30, 2007, the System funding ratio of the actuarial accrued liability is 17.2%.
- Loans to plan members amounted to $927 million at June 30, 2008 compared to $577 million at June 30, 2007.

The basic financial statement of the System for the fiscal year ended June 30, 2008 presents a decrease in net assets held in trust for pension benefits of approximately $284 million. This was mostly the result of an increase in cash and short-term investments of $1,368 million and increase in the fair value of investments and bond issue cost of $753 million. Both increases were based on the proceeds received as a result of various bonds issuances during the current year. There was also a net increase in loans and interest receivable from plan members of $350 million as the loan upper limits were raised from $5 thousand to $15 thousand for the personal loans and from $5 thousand to $10 thousand for the cultural trip loans. The increase in accounts receivable of $198 million was mainly due to amounts receivable from various employers due to the implementation of early retirement programs as described in Note 2 to the basic financial statements. Finally, the net increase in total liabilities of $2,953 million was principally due to the issuance of senior pension funding bonds in the amount of $2,942 million.

The System's net assets held in trust for pension benefits include employer and employee contributions as well as investment income. For fiscal year 2008, the employer and plan member contributions increased by approximately $86 million, from $782 million during fiscal year 2007 to $868 million during fiscal 2008, which includes income received from early retirement contributions in the amount of $69 and $142 million, respectively. The System recognized a net depreciation in the fair value of investments of $213 million and a net appreciation of $364 million for fiscal year 2008 and 2007, respectively.

Also the financial statement of the System for the fiscal year ended June 30, 2007 presents an increase in net assets as compared to the fiscal year ended June 30, 2006 of approximately $350 million. This was mostly the result of an increase in the fair value of investments of $317 million, increase in loans portfolio of $49 million, increase in cash and short-term investments of $255 million, increase in accounts receivable of $29 million and an increase in liabilities of $195 million, offset by the sale of the PRTA Holdings Preferred Stock investment of $495 million..

For fiscal year 2007, the employer and employee contributions increased by approximately $41 million, from $741 during fiscal year 2006 to $782 million during fiscal year 2007, which includes income received from early retirement in the amount of $69 and $15 million, respectively. The System recognized a net appreciation in the fair value of investments of $364 and $189 million for fiscal year 2007 and 2006, respectively.

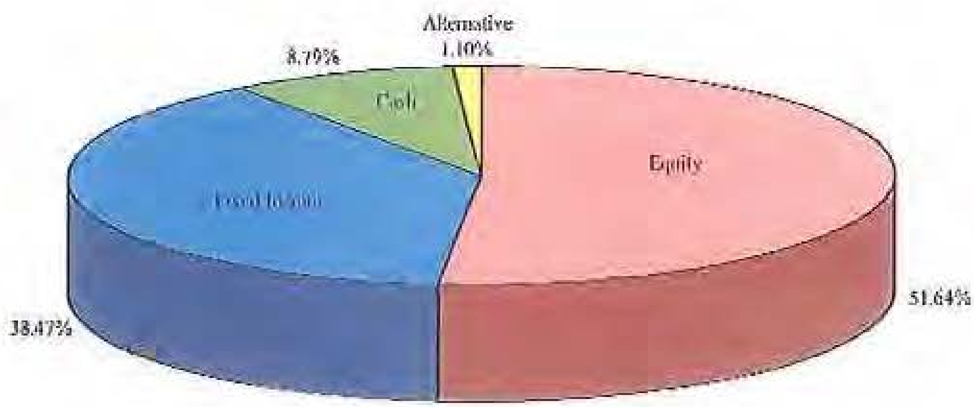
Issuance of Bonds

The Board of Trustees approved the issuance of bonds to increase the funds currently available to pay pension benefits to certain of its beneficiaries. The total amount of the bond payable amounted to $2,942 million as of June 30, 2008.

Financial Analysis of the System

Facing an unstable market, in 2001 management identified the need for a portfolio restructuring. The System's portfolio moved from a very aggressive allocation of 75% toward equities to a controlled allocation of a maximum of 65% in equities. To enhance the expected annual return, the strategy concentrated in the allocation of a 28% of the total portfolio to the plan members' loans program with only 7% assigned to a core fixed income strategy. Those loans actually provide a higher return and lower risk in comparison to bonds, mostly because the System has the ability to rise the interest rates charged, the repayment comes from payroll deductions and the loans are guaranteed by plan members' accumulated contributions.

The asset mix of the fund generated a fixed income of approximately 10.59% and 10.32% for the year ended June 30, 2008 and 2007, respectively. The new asset allocation is the one that fulfills the System's needs and since it is more adequately balanced, it provides protection in case of a market downturn. The asset allocation for Equity is 51.64%, Fixed Income 38.47%, Cash 8.79% and Alternative Investments 1.10% as shown in the following chart:



Other Investments and Transactions

At June 30, 2008 and 2007, the System held approximately $927 and $577 million, respectively, in loans and interest receivable from plan members which represent 26% and 23%, respectively of the total investment portfolio. As of June 30, 2008 these loans consist of $116 million in mortgage loans, $782 million in personal loans, $37 million in cultural loans, $18 million in accrued interest receivable, and $27 million in allowance for adjustment and losses in realization. For the fiscal year ended June 30, 2007 these loans consist of $108 million in mortgage loans, $440 million in personal loans, $27 million in cultural loans, $16 million in accrued interests receivable, and $14 million in allowance for adjustment and losses in realization.

As of June 30, 2008 and 2007, the System has participation in Limited Partnership Investments for an approximate value of $42.3 and $47.8 million, respectively which represents 2% of the investment portfolio for each year.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally used the borrowed security to cover short sales and failed trades. The cash collateral received from the brokers is invested in order to earn interest. For financial statements purposes, the amount of securities as of June 30, 2008 that was involved in the securities lending transactions was presented with the required disclosures, according to the current government accounting pronouncements. For the fiscal year 2008 and 2007, income from the custodian securities lending activity amounted to approximately $349,000 and $144,000, respectively.

Funding Status

The System was created by Act 447 of May 15, 1951, and since its inception it lacked proper planning and the levels of contributions were relatively low (and still remains low in comparison to the level of benefits). Besides, all retirement systems in place before 1951 were merged into the System, which then had to absorb all their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced however, without the appropriate increase in the contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified, basically to decrease the benefits and to postpone the retirement age from 55 to 65 in order to provide a structure more affordable. Also, the level of contributions was raised and the Act 447 was amended to provide that any increase in benefits will require actuarial studies and must state the financing source.

Ten years later, the steeping course of the unfunded liability required further action. As a result, the defined benefit plan was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the Commonwealth created a defined contribution plan funded only by employee's contributions. The new plan is known as the Retirement Savings Account Program (System 2000). Under System 2000, the employers' contributions continue at the same level as the defined benefit plan, but are being used to fund the accrued actuarial liability of the defined benefit plan that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term

disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act 296 was enacted to amend the dispositions on Act 305 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act 296 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the Employee's System consists of three different benefit structures, which are administrated according to their specifications in the Act. For all plan members in the defined benefit plan, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee's contributions range from 8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions are stated by law at 9.275% of the employee salary.

On the other hand, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in the employers or employees contributions to cope with those factors and therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events plus the continuous increase in the actuarial liability had a negative effect over the System's actuarial unfunded liability. Based on the last actuarial valuation at June 30, 2007, the System's funding ratio is 17.2%, the actuarial obligation is $16,769 million, total actuarial value of plan assets amounted to $2,891 million and the unfunded actuarial accrued liability is $13,878 million.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. Somehow capital contributions must be increased and/or the liabilities must be reduced. Management has come up with recommendations to improve the System's financial health. Among those stand out the possibility to increase in employee's and employer's contribution rates.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds. The System has authorized the issuance of one or more series of bonds (the Bonds) in order to increase the funds currently available to pay pension benefits to certain of its beneficiaries. The System will pledge future Employer Contributions to the payment of the Bonds, invest the proceeds of the Bonds and use these investments and the earnings thereon to provide such pension benefits to its beneficiaries. On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds).

Increase in Benefits for Retirees Established for 2008 and 2007

For the years 2008 and 2007, the Government of Puerto Rico granted several benefits to the System's retirees to help them cope with the increase in the cost of living, which consisted of:

- Increase in the minimum monthly pension benefit from $300 to $400, effective July 1, 2007.
- Increases of 3% in all pensions effective on July 1, 2007, but computed retroactively to January 1, 2007.
- Increase from $500 to $550 and to $600 in the Christmas Bonus for the retiree, effective in December 2006 and 2007 respectively.

Following the requirements established by Act 1 of February 16, 1990, these benefits are financed through legislative appropriations from the Commonwealth with respect to Central Government retirees and financed by the municipalities and public corporations with respect to their corresponding retirees. There were no additional benefits for fiscal year 2008.

Capital Assets

The System's investment in capital assets as of June 30, 2008 and 2007 amounted to approximately $9.8 and $8.5 million, respectively, net of accumulated depreciation. Capital assets include land, building, construction in progress, equipment, furniture. The building consists in the facilities in which the System has its operations.

During the year ended June 30, 2007 the System invested approximately $1.4 million for construction and remodeling the building facilities. This construction activity was financed through the operational budget of the System.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

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Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Statements of Plan Net Assets

June 30, 2008 and 2007

Assets		2008	2007
		(In thousands)	
Cash and short-term investments:			
Deposits at commercial banks	$	84,439	41,365
Deposits with Treasury Department of the Commonwealth		23,099	
Deposits with Government Development Bank of Puerto Rico:			
Unrestricted		54,438	266,633
Restricted		1,320,224	2,310
Deposits with Bank of New York		194,819	—
Total cash and short-term investments		1,677,019	310,308
Investments:			
Bonds and notes		538,787	149,639
Stocks		2,026,717	1,693,144
Private equity investments		42,294	47,784
Total investments		2,607,798	1,890,567
Total cash and investments		4,284,817	2,200,875
Bond issue costs		35,462	
Loans and interest receivable from plan members, net of allowance for adjustments and losses in realization		926,831	577,314
Accounts receivable:			
Employers		246,167	117,420
Commonwealth of Puerto Rico		854	4,615
The Commonwealth of Puerto Rico Judiciary Retirement System		16,714	5,113
Investment sales		9,800	2,470
Accrued interest		3,278	3,119
Other		58,210	4,527
Total accounts receivable		335,023	137,264
Capital assets		9,840	8,476
Other assets		8,293	7,371
Total assets	$	5,600,266	2,931,300

See accompanying notes to basic financial statements.

(Continued)

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
Statements of Plan Net Assets
June 30, 2008 and 2007

		2008	2007
		(in thousands)	
Liabilities			
Deposits with Treasury Department of the Commonwealth	$	–	1,566
Funds of mortgage loans and guarantee insurance reserve for loans to plan members		3,863	8,914
Investment purchases		12,696	2,172
Accounts payable and accrued liabilities		9,310	10,125
Bonds payable		2,942,184	—
Bonds interest payable		12,181	
Other liabilities		12,946	17,022
Total liabilities		2,993,180	39,799
Net assets held in trust for pension benefits	$	2,607,086	2,891,501

(Concluded)

See accompanying notes to basic financial statements.

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Statements of Changes in Plan Net Assets

Years Ended June 30, 2008 and 2007

	2008	2007
	(in thousands)	
Additions:		
Contributions:		
Employers	$ 380,831	374,394
Participating employees	345,614	338,791
Early retirement	141,724	69,097
Other special laws	16,789	17,000
	884,960	799,282
Investment (loss) income:		
Net (depreciation) appreciation of investments	(213,356)	364,185
Dividend income	10,347	14,494
Interest income	115,763	68,231
	(87,246)	446,910
Less: Investment expense	6,664	12,940
Net investment (loss) income	(93,910)	433,970
Insurance premiums on loans to plan members	6,197	2,441
Other income	24,810	17,431
Total additions	822,057	1,253,124
Deductions:		
Annuities	932,701	793,883
Benefits under other special laws	16,789	17,000
Death benefits	18,712	13,872
Refunds of contributions:		
Employers	3,020	5,296
Participating employees	37,346	28,009
Insurance claims on loans to plan members	1,092	2,118
Interests on bonds payable	46,996	—
General and administrative	31,610	29,207
Other expenses	18,206	13,569
Total deductions	1,106,472	902,954
Net (decrease) increase	(284,415)	350,170
Net assets held in trust for pension benefits:		
Beginning of year	2,891,501	2,541,331
End of year	$ 2,607,086	2,891,501

See accompanying notes to basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the System) was created by Act No. 447 on May 15, 1951. The System began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The System is a pension trust fund of the Commonwealth of Puerto Rico (the Commonwealth). The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the System is vested on the Board of Trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office (ORHELA), and the Municipal Affairs Commissioner.

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

Basis of Presentation

The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board No. 25 (GASB No. 25), *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* as amended by GASB Statement No. 50, *Pension Disclosures*. Participating employees and employer's contributions are recognized as additions in the period in which the employee services are rendered. Annuities and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

During the year ended June 30, 2007 the System adopted the provision of the Statement of Governmental Accounting Standards Board No. 43 (GASB No. 43), *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, the objective of which is to establish uniform standards of financial reporting by state and local governmental entities for other post-employment benefits plan. This statement provides standards for measurement, recognition and display of the asset, liabilities, net assets and changes in net assets and for related disclosure.

During the year ended June 30, 2008 the System adopted the provision of the Statement of Governmental Accounting Standards Board No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, the objective of which is to establish standards for the measurement, recognition, and display of other post employment benefits (OPEB) expenditures and related assets and liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. Also, the System adopted the provision of the Statement of Governmental Accounting Standards Board No. 48 (GASB No. 48), *Sales and Pledges of Receivable and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, the objective of which is to establish uniform criteria for financial reporting by state and local governmental entities on whether to report these types of transactions as a sale or as a collateralized borrowings resulting in a liability.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted (GAAP) in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

Cash and Short-Term Investments

Cash and short-term investments consist of overnight deposits guaranteed by the custodian bank, and certificates of deposits in Government Development Bank for Puerto Rico (GDB) and a commercial bank. Restricted cash deposited with GDB consists of payments received from mortgage loan holders administered by the mortgage services in the servicing of loans (escrow accounts); expired checks not claimed by the plan members, restricted for repayments, and proceeds of the issuance of the Series A and B Bonds restricted for investment purchases.

Investments

Investments are carried at fair value, except for certain mortgage notes, which do not have readily determinable fair values. The fair value of notes, bonds and stocks is based on quotations obtained from national securities exchanges. Securities transactions are accounted for on the trade data.

The alternative investments have as assets, securities whose values have been estimated by the corresponding general partner or fund manager. Market values are not available. The estimated values may differ significantly from the amounts that could be obtained from dispositions or formal active markets if were available.

Mortgage notes acquired from third parties are held to maturity and are not readily marketable. Consequently, these are carried at amortized cost.

Loans to Plan Members

Mortgage, personal and cultural trip loans to plan members are stated at their outstanding principal balance. Maximum amounts that may be granted to plan members for mortgage, personal and cultural trip loans are $100,000, $15,000 and $10,000, respectively.

The System services mortgage loans with aggregate principal balances of approximately $10.4 and $11.9 million at June 30, 2008 and 2007, respectively, related to certain mortgages loans sold to Federal National Mortgage Association (FNMA) for a fee of .25%. The income for 2008 and 2007 amounted to $21,672 and $30,622 respectively, and is recognized as interest income in the accompanying statement of changes in plan net assets.

In addition, as of June 30, 2008 and 2007, the System repurchased approximately $56,126 and $51,090, respectively, in mortgage loans that were sold during fiscal year 1998 to FNMA. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

Insurance Premiums, Claims and Reserve for Life Insurance on Loans to Plan Members

Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five year period increased by a management determined percentage.

Capital Assets

Capital assets include building, furniture and equipment, capital leases and construction in progress. The System defines capital assets as assets, which have an initial individual cost of $500 or more at the date of acquisition and have a useful life equal to or in excess of four years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5-10

During the year ended June 30, 2007, the System adopted the provisions of Statement on Governmental Accounting Standards (GASB) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the government should be reported at lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that use the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Management assessed and determined that no impairment adjustment was deemed necessary.

Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2008:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for fiscal years beginning after December 15, 2007
- GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*, which is effective for fiscal years beginning after June 15, 2009.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* which is effective for fiscal years beginning after June 15, 2008.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which is effective for fiscal years beginning after June 15, 2009.

The impact of these statements on the System's basic financial statements has not yet been determined.

2. PLAN DESCRIPTION

The System is a cost-sharing multi-employer defined benefit plan sponsored by the Commonwealth, public corporations and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its Instrumentalities (Commonwealth Agencies, Municipalities and Public Corporations, including the System) are covered by the System under the terms of the Act No. 447 of 1951. All regular, appointed and temporary employees of the Commonwealth at the date of employment become plan members of the System. The System is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

At June 30, 2008 and 2007, membership consisted of the following:

	2008	2007
Retirees and beneficiaries currently receiving benefits	102,614	99,851
Current participating employees	103,230	107,256
Total membership	205,844	207,107

The plan members of the System, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity

Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighter:

50 with 25 years of credited service
58 with 10 years of credited service

Other Employees:

55 with 25 years of credited service
58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity

Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity

A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions to the System are left within the System until attainment of 58 years of age.

Coordinated Plan

On the Coordinated Plan the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

Non-Coordinated Plan

On the Non-Coordinated plan the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity

A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Non-occupational Disability Annuity

A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the

average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits

Occupational:

- Surviving spouse - annuity equal to 50% of the participating employee's salary at the date of the death.
- Children - $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Non-occupational:

- Beneficiary - the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Post-retirement:

- Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds

A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the System plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members Who Joined the System on or After April 1, 1990:

Act No. 1 of February 16, 1990 made certain amendments applicable to new participating employees joining the System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits

Act No. 10 of May 21, 1992 provided for increases of 3% every three years, of the pensions paid by the System to those plan members with three or more years of retirement. The Act requires further

legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living adjustment (COLA) as Act No. 207 of August 13, 1995, Act No. 221 of August 9, 1998, Act No. 40 of June 13, 2001, Act No. 157 of June 27, 2003, and Act No. 35 of April 24, 2007.

On April 24, 2007 the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the System to those plan members which monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the System, the increases granted pursuant to the above laws are being financed through appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted

For fiscal years 2003 to 2007 the Commonwealth of Puerto Rico granted additional benefits to the System's retirees. As of June 30, 2008 these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs

During fiscal year 2001 the Commonwealth granted three additional retirement programs through Act No. 370, dated December 31st, 1999, Act No. 119 dated July 13th, 2000, and Act No. 174 dated August 12th, 2000. These acts applied to employees of the Municipality of San Juan, employees of the State Insurance Fund Corporation and the employees within the three branches of the of the Commonwealth of Puerto Rico, respectively. These early retirement programs ended in fiscal year 2006, time in which the total employees became fully beneficiaries of the System. To avoid any economic impact on the System, the employers were responsible for contributing to the System the amounts to cover the benefit payments and the employer and employee contributions with respect to the plan members covered until reaching the normal retirement age.

During fiscal year 2007 the Commonwealth issued the Act No. 273, dated December 21, 2006, to implement an early retirement program for the employees of the Puerto Rico Tourism Company (Tourism). Also the Municipality of San Juan issued the Resolution No. 41, dated November 17, 2006, which provided also, an early retirement program for the municipalities' employees. The actuarial cost of the implementation of the early retirement program of Tourism and the Municipality of San Juan would be paid by each entity prior to the implementation of the program.

As of June 30, 2008, there is $2.8 million as receivable balance from PRIDCO's early retirement program from the year 2005.

During fiscal year 2008 the Commonwealth issued the Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico Recreation Development. The Municipality of San Juan based on the Resolution No. 41, signed an agreement dated May 5, 2008, which provided an early retirement program for the municipalities' employees. Also, the Government Development Bank of Puerto Rico (GDB), including its subsidiaries, the Puerto Rico Infrastructure

Financing Authority and the Puerto Rico Housing Financing Authority, implemented an early retirement program for its employee's under the Act No. 188, dated December 12, 2007. The Recreation Development of PR already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the System in three installments on each July 31 starting on 2009 through 2011. The actuarial cost of the implementation of the early retirement program of the Municipality of San Juan would be paid by the Municipality prior to the implementation of the program during a five year period. In addition, GDB would reimburse the annuities and other benefits paid by the System immediately upon invoiced.

Amendment to Act No. 447 Effective January 1, 2000 to create a Defined Contribution Plan:

On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted to establish a defined contribution plan, known as System 2000 to cover employees joining the System on or after January 1, 2000.

Employees participating in the current system as of December 31, 1999, were allowed to elect either to stay in the defined benefit plan or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of plan assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth will not guarantee benefits at retirement age.

The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2008 and 2007, System 2000 membership within the System's total membership consisted of the following:

	2008	2007
Current participating employees	69,440	69,581

3. FUNDING POLICY

The contribution requirement to the System is established by law and is not actuarially determined. Required employers' contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated plan

and 8.275% of the total monthly salary for participating employee's contributions for the non-coordinated plan. Commonwealth contributions should ultimately cover any deficiency between the participating employers' and employee's contributions and the System's pension benefit obligations and general and administrative deductions.

The System received from the Commonwealth $134.9 and $117.9 million in 2008 and 2007, respectively, to cover special laws. The additional contributions are accounted as reduction of benefits payments, except for approximately $16.8 million and $17 million in 2008 and 2007, respectively, which are received under the provisions of Law No. 127 of 1958 that covers the occupational disability of firefighter, policemen and other personnel disabled during high risk circumstances.

The System, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years there have been laws that granted additional benefits; such as, summer and Christmas bonuses, medical plan contributions, and various increases in cost of living allowances (3%), among others. Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Actuarial Information

Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2007, using the projected unit credit actuarial cost method, with straight proration based on service to decrement. The significant assumptions underlying the actuarial computations include (a) assumed rate of return on investments of 7.5%, (b) assumed projected salary increases of 3%, (no increases in 2009-10 and 2010-11) (c) assumed projected payroll growth of 2.5%, (d) assumed inflation rate of 2.5%, (e) assumed cost of living adjustments of .99% annual COLA to approximate 3% triennial increases (COLA is only applied to members covered under Act 127 who become disabled or die in the line of duty), and (e) assumed mortality as follows:

- Pre-Retirement Mortality – RP-2000 Employee Mortality Rates for males and females, projected on a generational basis using Scale AA.
- Post-Retirement Healthy Mortality gender specific rates based on a study of System mortality experience during the period from July 1, 2003 to June 30, 2007 projected on a generational basis using Scale AA.
- Post-Retirement Disabled Mortality – RP-2000 Disabled Annuitant Mortality Rates, without projection.

As of June 30, 2007 the actuarial accrued liability and the unfunded actuarial accrued liability were approximately $16,769 and $13,878 million, respectively.

The Legislature of the Commonwealth enacted Act No. 1 of February 16, 1990 to improve the solvency of the System for the next 50 years. Among other provisions, the legislation increased the level of contributions to the System, reduced the benefits for new participating employees and increased the retirement age from 55 to 65 years. Further, through Act 305 of September 24, 1999, the defined benefit plan was closed and a defined contribution plan was created (as described in Note 2) for all plan members who started working for the Commonwealth effective January 1, 2000 or after.

As an employer, the System has contributed $1,578,000 and $1,525,000 which represented its contractually required contribution for the years ended June 30, 2008 and 2007, respectively.

4. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2007, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Salary	UAAL as a Percentage of Annual Salary
June 30, 2007	$ 2,891,501	16,769,512	13,878,011	17.2%	4,246,409	326.8%

The schedule of funding progress (see page 48), presented as required supplementary information (RSI) following the notes to the financial statements, present multilayer trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	June 30, 2007
Actuarial Cost Method	Projected unit credit actuarial cost method; with straight proration based on service to decrement
Amortization Method	30 years closed, level dollar
Remaining Amortization Period	30 years
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Investment rate of return	7.50%
Projected salary increases	3.00% (no increases in 2009-10 and 2010-11)
Projected payroll growth	2.5%
Inflation	2.5%
Mortality rate	Pre-Retirement Mortality - RP-2000 Employee Mortality Rates, for males and females, projected on a generational basis using Scale AA.
	Post-Retirement Healthy Mortality - gender specific rates based on a study of System mortality experience during the period from July 1, 2003 to June 30, 2007, projected on a generational basis using Scale AA.
	Post-Retirement Disabled Mortality - RP-2000 Disabled Annuitant Mortality Rates, without projection.

Cost of living adjustment	.99% annual COLA to approximate 3% triennial increases (COLA is only applied to members covered under Act 127 who become disabled or die in the line of duty).

5. CASH AND INVESTMENTS

Custodial Credit Risk Related to Deposits

As of June 30, 2008 and 2007, the System's custodial credit risk was approximately $1.4 billion and $275.4 million, respectively, related to the bank balance of cash and short-term investments deposited in GDB. These deposits are exempt from the collateral requirement established by the Commonwealth.

Custodial credit risk is the risk that, in an event of a bank failure, the System's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits at GDB for Puerto Rico are uninsured and uncollateralized, as these entities, which are component units of the Commonwealth, are exempt from compliance with the collateralization requirement.

Investments

The following schedule shows the fair value of the investments in marketable securities held by the System as of June 30, 2008 and 2007 (in thousands):

	2008	2007
	(in thousands)	
US Government and agencies' securities	$ 288,840	96,879
US Corporate bonds	249,947	52,760
Total bonds	538,787	149,639
US Corporate stocks	1,436,291	1,137,987
Non-US Corporate stocks	590,426	555,157
Total stocks	2,026,717	1,693,144
Private equity investments	42,294	47,784
Total investments	$ 2,607,798	1,890,567

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk and interest rate risk. Following is a description of these risks as of June 30, 2008.

Custodial Credit Risk Related to Investments

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2008 and 2007 securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, State Street Bank and Trust, Citibank N.A., and Morgan Stanley.

Credit Risk

All fixed income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings. The following schedule presents the bonds Moody's ratings as of June 30, 2008 and 2007, respectively (in thousands):

		Fair Value	
Moody's Rating	Investment Type	2008	2007
AAA	US Government and Agencies Securities	$ 288,840	96,879
AAA	Corporate Bonds	62,937	990
AA1	Corporate Bonds	2,564	2,344
AA2	Corporate Bonds	20,985	—
AA3	Corporate Bonds	21,162	12,522
A1	Corporate Bonds	30,897	4,414
A2	Corporate Bonds	37,172	5,229
A3	Corporate Bonds	29,218	4,449
BAA1	Corporate Bonds	10,427	2,653
BAA2	Corporate Bonds	15,835	7,279
BAA3	Corporate Bonds	15,837	8,886
CAA1	Corporate Bonds	2,913	3,994
	Total bonds	$ 538,787	149,639

Concentration of Credit Risk

No investment in marketable securities in any organization represents 5% or more of the System's net assets held in trust for pension benefits.

Interest Rate Risk

In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirement for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in diversified portfolio of marketable, investment grade core fixed income securities.

The following schedule summarizes the investments on debt securities of the System at June 30, 2008 (in thousands):

			Investment Maturities (In Years)			
	Maturity from	Fair Value	Less than 1	1-5	More than 5-10	More than 10
U.S Government and agencies securities	(2008-2038)	$ 288,840	5,951	35,682	27,796	219,411
Corporate bonds	(2009-2044)	249,947	7,451	84,876	65,008	92,612
Total bonds		$ 538,787	13,402	120,558	92,804	312,023

As of June 30, 2008, investments maturities are as follows:

Maturity	Maximum Maturity
Less than one year	2%
One to five years	22%
More than five to ten years	17%
More than ten years	58%

Foreign Currency Risk

As of June 30, 2008 and 2007, the System owned approximately $519 and $555 million, respectively, in an international equity commingled fund under the custody of Morgan Stanley investment bank, which represented approximately 96.8% and 74.11%, respectively, of the total commingled fund. Also, for the year ended June 30, 2008 the System owned approximately $71 million in an international equity commingle fund under the custody of Invesco International Equity Trust, which represented approximately 8.67% of the total commingle fund. As of June 30, 2008 and 2007 these two pooled trusts had an asset mix and country allocation as shown in the following schedules:

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Employee's Retirement System of the Government of the Commonwealth of Puerto Rico
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2008 and 2007

Morgan Stanley: Assets Mix			2008 Percent	2007 Percent
Cash and Equivalents			8.68	1.51
Future Contracts			8.77	12.14
Equity Securities			82.55	86.35
Total			100.00	100.00
Country Allocation	**Currency**	**Currency Code**	**Portfolio %**	**Portfolio %**
Poland	Zlotych	PLN	0.68	0.61
Russia	Rubles	RUB	0.94	0.99
Eastern Europe			1.62	1.60
Austria	Euro	EUR	0.00	1.00
Belgium	Euro	EUR	0.46	0.55
Finland	Euro	EUR	1.09	0.95
France	Euro	EUR	8.69	9.39
Germany	Euro	EUR	7.10	11.61
Greece	Euro	EUR	0.56	0.24
Ireland	Euro	EUR	0.00	0.05
Netherlands	Euro	EUR	1.88	2.47
Italy	Euro	EUR	0.00	0.99
Portugal	Euro	EUR	0.16	0.16
Spain	Euro	EUR	2.79	2.02
Euro Europe			22.73	29.43
Brazil	Real	BRL	1.24	1.93
Colombia	Pesos	COP	0.00	0.05
Mexico	Pesos	MXN	0.21	1.05
Latin America			1.45	3.03
Cyprus	Pounds	CYP	0.00	0.04
Turkey	Lira	TRY	0.02	0.22
Middle East			0.02	0.26
Denmark	Kroner	DKK	0.44	0.41
Norway	Kroner	NOK	1.76	1.32
Sweeden	Krona	SEK	1.85	2.61
Switzerland	Francs	CHF	5.56	4.72
United Kingdom	Pounds	GBP	16.32	17.85
Non-Euro Europe			25.93	26.91
Australia	Dollars	AUD	4.80	3.81
China	Yuan Renminbi	CNY	0.46	1.80
Hong Kong	Dollars	HKD	2.58	1.26
Indonesia	Rupiahs	IDR	0.18	0.48
Japan	Yen	JPY	23.38	24.72
Malasya	Ringgits	MYR	0.08	0.08
New Zealand	Dollars	NZD	0.01	0.01
Philippines	Pesos	PHP	0.02	0.00
Singapore	Dollars	SGD	2.53	2.14
South Korea	Won	KRW	0.02	0.56
Taiwan	New Dollars	TWD	0.70	0.14
Pacific			34.76	35.00
Emu	Euro	EUR	4.51	0.60
Africa	Rand	ZAR	0.08	0.14
India	Rupees	INR	0.22	1.52
Other			4.81	2.26
Cash			8.68	1.51
Total			100.00	100.00

Invesco: Assets Mix	2008 Percent
Short Term Investments	2.13
Foreign Stock	97.87
Total	100.00

Country Allocation	Currency	Currency Code	Portfolio %
Canada	Dollars	CAD	1.24
North America			1.24
Finland	Euro	EUR	3.96
France	Euro	EUR	9.27
Germany	Euro	EUR	4.46
Netherlands	Euro	EUR	9.97
Italy	Euro	EUR	1.83
Spain	Euro	EUR	1.48
Euro Europe			30.97
Denmark	Kroner	DKK	1.30
Norway	Kroner	NOK	1.32
Sweeden	Krona	SEK	3.81
Switzerland	Francs	CHF	9.38
United Kingdom	Pounds	GBP	18.57
Non-Euro Europe			34.38
Hong Kong	Dollars	HKD	2.91
Japan	Yen	JPY	24.26
Pacific			27.17
Invesco Emerging Markets Equity Trust			6.24
Other Countries			6.24
Total			100.00

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Investments in Limited Partnerships

As of June 30, 2008, the System had capital commitments and contributions as follows (in thousands):

	Date of Commitment		Total Commitment	FY 08 Contributions	Contributions to Date at Cost	Estimated Value
Grupo Guayacán, Inc.						
Guayacán Fund of Funds, LP	Sept. 1996	$	25,000	67	23,570	5,801
Guayacán Fund of Funds II, LP	Aug. 1999		25,000	127	23,538	13,382
Advent-Morro Equity Partner, Inc.						
Guayacán Private Equity Fund, LP	Jan. 1997		5,000	—	4,407	4,432
Guayacán Private Equity Fund II, LP	Apr. 2007		15,000	4,365	5,565	4,907
Venture Capital Fund, Inc.	Nov. 1995		800	—	800	638
GF Capital Management & Advisors, LLC						
GF Capital Private Equity Fund LP	Dec. 2006		25,000	1,532	4,657	2,932
Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD	Jul. 2000		20,000	395	18,364	10,202
Martineau Bay Resort, s. en c. (s.e.)	Jul. 1998		1,796	—	1,796	—
Total private equity investments		$	117,596	6,486	82,697	42,294

As of June 30, 2007, the System had capital commitments and contributions as follows (in thousands):

	Date of Commitment		Total Commitment	FY 07 Contributions	Contributions to Date at Cost	Estimated Value
Grupo Guayacán, Inc.						
Guayacán Fund of Funds, LP	Sept. 1996	$	25,000	224	23,503	8,735
Guayacán Fund of Funds II, LP	Aug. 1999		25,000	3,772	23,411	16,859
Advent-Morro Equity Partner, Inc.						
Guayacán Private Equity Fund, LP	Jan. 1997		5,000		4,407	5,153
Guayacán Private Equity Fund II, LP	Apr. 2007		15,000	1,200	1,200	1,129
Venture Capital Fund, Inc.	Nov. 1995		800	—	800	633
GF Capital Management & Advisors, LLC						
GF Capital Private Equity Fund LP	Dec. 2006		25,000	3,125	3,125	2,754
Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD	Jul. 2000		20,000	1,068	17,969	12,521
Martineau Bay Resort, s. en c. (s.e.)	Jul. 1998		1,796	—	1,796	—
Total private equity investments		$	117,596	9,389	76,211	47,784

The fair value of investments in limited partnerships as of June 30, 2008 and 2007 amounted to approximately $42.3 and $47.8 million, respectively, and is presented within investments in the statements of plan net assets. The allocations of net gain and net loss to limited partners are based on certain percentages, as established in the limited partnership agreements. The distributions for these investments were as follows:

- During fiscal year 2008, $67 thousand were invested to Guayacán Fund of Funds, L.P., a Delaware limited partnership created by Grupo Guayacán, Inc. as General Partner in which the System has a total commitment of $25 million. The Fund has commitments to invest in fifteen (15) US based and international venture partnerships and familiarizes the local pension funds with the private equity asset class without the risks inherent in geographically constrained investments. Total contributions for fiscal year 2007 amounted to approximately $224 thousand.

- During fiscal year 2008, $127 thousand were invested to Guayacán Fund of Funds II, L.P., a Delaware limited partnership created by Grupo Guayacán, Inc. as General Partner in which the System has a total commitment of $25 million. The Fund seeks to provide investors with a superior investment return and extensive diversification by investing in nineteen (19) Private Equity investment partnerships in the United States and Europe. The Fund also invests a portion of its assets in a Puerto Rico based Private Equity investment entity. Total contributions for fiscal year 2007 amounted to approximately $3.8 million.

- During fiscal years 2008 and 2007 there were no additional contributions to the Guayacán Private Equity Fund, L.P., a limited partnership organized pursuant to the laws of the state of Delaware and authorized to engage in business in the Commonwealth of Puerto Rico, in which the System has a total commitment of $5 million. The purpose of the Partnership is to make equity investments in privately held companies as established in its charter.

- During fiscal year 2008, approximately $4.4 million were invested to Guayacán Private Equity Fund II, L.P., a limited partnership organized in April 2007, pursuant to the laws of the State of Delaware, in which the System has a total commitment of $15 million. The Partnership intends to seek out, invest in, and add value to companies, which will be based or operating in Puerto Rico or in companies whose products or services are targeted at the U.S.-Hispanic market, with specific interest in those companies where Advent-Morro's Equity Partners, Inc. Puerto Rico contact, know-how and track record can be leveraged to enhance investment selection and post-investment value-add. Guayacán Private Equity Fund II, L.P will strive to have a balanced mix of portfolio investments primarily focusing on later stage opportunities such as: expansion financing, leveraged buyouts, management buyouts and recapitalizations. The Partnership may invest in de-novo companies that are being set up to enter established industries via market consolidation opportunities and/or internal growth. Total contributions for fiscal year 2007 amounted to approximately $1.2 million.

- During fiscal years 2008 and 2007 there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico corporation organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act that is managed by Advent-Morro Equity Partners (Advent-Morro), in which the System has a total commitment of $800 thousand. Advent-Morro is a Puerto Rico based private equity firm. The Fund was created to make private equity investments in operating companies which are based, or are operating, or a

combination of both in Puerto Rico. Since inception, the Fund has invested in 25 companies some of which it continues to provide capital for their expansion.

- During fiscal year 2008, $1.5 million were invested in GF Capital Private Equity Fund, L.P., a limited partnership organized under the laws of the State of Delaware, in which the System has a total commitment of $25 million. The purpose of the partnership is to make private equity investments in a variety of industries including media and entertainment, branded consumer products, and software for media and telecommunications applications. The Partnership initiatives are focused on companies capitalized at between $20 to $400 million with a representation of buy-outs, growth capital and recapitalizations. Total contributions for fiscal year 2007 amounted to approximately $3.1 million.

- During fiscal year 2008, $395 thousand were invested in Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD a limited partnership, organized by Chase as General Partner in which the System has a total commitment of $20 million. The Fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors including buyouts, growth equity, venture capital and other special situations through partnership and direct investments. Total contributions for fiscal year 2007 amounted to approximately $1.1 million.

The investment in Martineau Bay represents an investment in a hotel resort that filed under Chapter 11 of the United States Bankruptcy Code.

Valuation Method of Limited Partnerships

- *Grupo Guayacan* – The fair value of the Partnership's investments in limited partnerships is determined by the general partners of the limited partnerships. The Fund evaluates and analyzes these valuations to assess their appropriateness for inclusion in the financial statements at fair value. The value of the Partnership's investments in limited partnerships will change from time to time based on prevailing market conditions and operating performance of each of the underlying entities. Because of the inherent uncertainty of valuations, the valuation estimates may differ from the values that would have been used had a ready market for securities existed and such differences could be material.

  The Partnership's policy is to present its investments at fair value. Fair value is determined as follows:

  1. For freely tradable (as defined below) securities, the fair value is determined by taking the last reported sales price of the security on the valuation date of the national securities exchange where it is primarily traded.

  2. For securities not traded on a national securities exchange, the fair value is determined by taking the last reported sales price on the valuation date on the NASDAQ National Market.

  3. For securities not traded on the NASDAQ National Market, the fair value is determined by the closing bid price (or average of bid prices) last quoted on the valuation date as reported by an established quotation service for over- the counter-securities.

4. All other securities are valued initially at cost, with subsequent adjustments to fair values, which reflect meaningful third- party transactions in the private market or fair value as determined by the General Partner, who may consult with the Investment Fund Manager. The determination of the fair value is made by and shall be based upon all relevant factors, including, without limitation, such of the following factors as may be relevant in the circumstances: current financial position and current and historical operating results of the issuer; sales prices of recent public or private transactions in the same or similar securities, including transactions on any securities exchange on which such securities are listed or in the over- the- counter market; general level of interest rates; recent trading volume of the security; restrictions on transfer, including the Partnership's right, if any, to require registration of its securities by the issuer under the securities laws; significant recent events affecting the issuer, including pending mergers, acquisitions and sales of securities; the price paid by the Partnership to acquire the asset; the percentage of the issuer's outstanding securities that is owned by the Partnership; and all other factors affecting value.

For purposes of the Partnership's valuation of investments, a security shall be deemed to be "freely tradable" if (i) the portion of the Partnership's holding of such security to be valued or distributed can be immediately sold by the Partnership to the general public without the necessity of any U.S. federal, state or local government consent, approval or filing (other than any notice filings of the type required pursuant to Rule 144 (h) under the Securities Act of 1933, as amended (the Securities Act), and (ii) such security is either listed on a national securities exchange, any other recognized stock exchange or stock market for dealing in securities in the United Kingdom or Western Europe or carried on the NASDAQ National Market and market quotations are readily available therefore.

- *Advent Morro Equity Partners Inc.* – The Partnership's valuation methodologies used for investments measured at fair value:

1. The cost (excluding transaction costs) of an investment is deemed the "exit price" on the date of the investment and is therefore used as its initial fair value.

2. Listed securities which are not restricted as to saleability or transferability are valued at the closing price as of the valuation date. If any listed security was not traded on such date, the mean of the closing high bid and low asked prices as of the close of business on such date is used.

3. Unlisted securities which are readily marketable are valued at the mean of the closing bid and asked prices as of the valuation date.

4. Securities, whether listed or unlisted, for which market quotations are available, but which are restricted as to saleability or transferability, shall generally be valued as provided in (2) and (3) above, less a discount of generally five percent (5%) to thirty percent (30%) of the value thereof as determined in good faith by the General Partner. In determining the amount of such discount, the General Partner shall give consideration to the nature and length of such restrictions and the relative volatility of the market price of such security.

5. For securities which are not publicly traded, or unlisted securities which are not readily marketable, but do have a comparable company which fair value can be determined, the General Partner will utilize comparable company valuation techniques to determine fair value. These include existing similar securities performance valuation, sales prices of recent public or private transactions in the same or similar securities, including transactions on any securities exchange on which such securities are listed or in the over-the-counter market; general level of interest rates; recent trading volume of the security; restrictions on transfer including the partnerships right, if any, to require registration of its securities by the issuer under the securities laws, etc. The fair values derived from valuation methodologies described above may include significant adjustments based on unobservable inputs, as deemed necessary by the General Partner, under the circumstances of the particular security.

6. If the security does not have a comparable company which fair value could be derived, the general partner will see if the investee company has sustainable performance, for example recurring EBITDA. In such cases fair value may be determined as EBITDA times a reasonable marketplace multiple for the company.

7. If there is no comparable company which fair value could be derived, then the General Partner will determine if there is any material change in the results of the investee company compared to budget, plan, market for the company or its products or potential products, major change in the global economy or the economic environment in which the company operates, etc.

8. If none of the above scenarios are considered, the value of most recent round of financing will most likely be used as the best estimate of fair value.

9. If there is no recent round of financing the General Partner will analyze the investment and use a reasonable method to arrive to an estimated fair value.

- *GF Capital Management and Advisors, LLC* – The Partnership adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), effective January 1, 2008. In accordance with FAS 157, "fair value" is defined as the price that the Partnership would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment.

- *Chase Capital Partners Private* -- Private equity investments are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, including primarily observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets and the fact that comparable public companies are not identical to the companies being valued. Such value may also be based on fair value as determined by JPMP and then adjusted as considered necessary by the Investment Manager due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such investments.

Investments in limited partnerships are presented in the accompanying financial statements at fair value, as determined by the Investment Manager. Such value generally represents the Fund's proportionate share of the net assets of the investment partnerships as reported by the general partners of the underlying partnerships. Accordingly, the value of the investment in the underlying partnerships is generally increased by additional contributions to the underlying partnerships and the Fund's share of net earnings from the underlying partnership investments and decreased by distributions from the underlying partnerships and the Fund's share of net losses from the underlying partnership investments.

The valuation of the underlying private companies require significant judgments and interpretations by the general partners of the underlying investment partnerships due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such investments. Private companies are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, including primarily observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets and the fact that comparable public companies are not identical to the companies being valued.

Securities Lending Transactions

The System entered into securities lending transactions. The System's securities custodian, as agent, manages the securities lending program and receives liquid collateral. At June 30, 2008 and 2007, the collateral received represents 102.93% and 103.88%, respectively, of the fair value of the securities lent.

Fair value of securities lending obligations for which collateral was received consisted of $166.7 million and $61.8 million in US equity securities at June 30, 2008 and 2007 respectively.

The underlying collateral for these securities had a market value of approximately $171.6 and $64.2 million as of June 30, 2008 and 2007, respectively, and was invested as follows (in thousands):

		2008		2007	
Asset Backed Commercial Paper	$	-	—	9,369	14.58%
Reverse Repo U.S. Agency Delivered		1,047	0.61%	6,154	9.58%
Reverse Repo Mortgage Backes Tri- Party		—	—	48,720	75.84%
Reverse Repo Corporate Tri-Party		170,553	99.39%	—	—
Total	$	171,600	100.00%	64,243	100.00%

The System has low credit risk exposure to borrowers. The System's rights to collateral are defined in the contractual agreement. There is collateral in excess of 100%. In case of borrower default, the System has immediate rights to collateral. Borrower's creditworthiness is also proactively reviewed by the Lending Agent.

6. LOANS AND INTEREST RECEIVABLE FROM PLAN MEMBERS

The loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. Effective September 2007, the System increased the maximum amounts that may be granted to plan members for personal and cultural trip loans from $5,000 to $15,000 and from $5,000 to $10,000, respectively.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable except mortgage loans, and also a specific allowance for the special collection project loans balances.

The composition of loans and interest receivable from plan members is summarized as follows (in thousands):

		2008	2007
Loans receivable:			
Mortgage	$	116,022	107,680
Personal		782,234	439,854
Cultural trips		37,379	27,813
Total loans to plan members		935,635	575,347
Accrued interest receivable		17,769	16,200
		953,404	591,547
Less: Allowance for adjustments and losses in realization		(26,573)	(14,233)
Total loans receivable, net	$	926,831	577,314

7. ACCOUNTS RECEIVABLE FROM EMPLOYERS

During 2007 the System recorded approximately $64.5 million as a reduction of annuities disbursements, regarding the amount billed for special laws that are the financial responsibility of the corresponding employers. The management of the System recorded all revenues during fiscal year 2007 since they believe that the information available in previous years was not sufficient and reliable to determine an accurate amount.

From the $41 million of accounts receivable from employers as of June 30, 2007, 46% are supported by installment payment agreements signed by the counterparties, 37% accepted the amount billed by the System, but requested a term extension to sign the agreements after analysis by the governing bodies of the counterparties and 17% which have not accepted nor rejected the amount billed by the System.

The total amount included as receivable as of June 30, 2008, includes an allowance for doubtful accounts of approximately $7 million mainly caused by the amount billed to the employers which as of end of fiscal year have not replied to the System either accepting or rejecting the amount billed to them. It is the management understanding that the remaining receivable balances do not need an

allowance for doubtful accounts since these employers have consistently showed an acceptable payment history toward the System.

As of June 30, 2008 the balance of these accounts receivable amounted to $27 million as collections has been received during current year. For this outstanding balance there is still recorded an account receivable allowance of over $6 million, however the System has engaged in additional strategies toward a more aggressive collection effort to reach the highest collection rate possible. The System's management believes that these balances have a high probability of collection, moreover with the new collection strategies implemented and that any balance that remains uncollected has been already offset from their records as an adequate allowance has been established.

Accounts receivable from employers consist of contributions and loan repayments due from municipalities and public corporations. The employers, other than Commonwealth agencies, must pay directly to the System. According to Act 447, each employer must pay on a monthly basis, the amounts regarding contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged, as established by the System. As of June 30, 2008 and 2007, the receivable from employers amounted to $241.3 and $117.4 million, respectively.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 969	—	—	969
Construction in progress	1,375	1,700	—	3,075
Total capital assets, not being depreciated	2,344	1,700	—	4,044
Capital assets, being depreciated:				
Building and improvements	7,631		—	7,631
Equipment	12,958	373	1,427	11,904
Total capital assets, being depreciated	20,589	373	1,427	19,535
Less accumulated depreciation for:				
Building and improvements	3,455	113	—	3,568
Equipment	11,002	592	1,423	10,171
Total accumulated depreciation	14,457	705	1,423	13,739
Total capital assets being depreciated, net	6,132	(332)	4	5,796
Total capital assets, net	$ 8,476	1,368	4	9,840

Capital assets activity for the year ended June 30, 2007 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 969	—	—	969
Construction in progress	—	1,375	—	1,375
Total capital assets, not being depreciated	969	1,375	—	2,344
Capital assets, being depreciated:				
Building and improvements	7,631	—		7,631
Equipment	12,780	295	117	12,958
Total capital assets, being depreciated	20,411	295	117	20,589
Less accumulated depreciation for:				
Building and improvements	3,342	113		3,455
Equipment	10,344	770	112	11,002
Total accumulated depreciation	13,686	883	112	14,457
Total capital assets being depreciated, net	6,725	(588)	5	6,132
Total capital assets, net	$ 7,694	787	5	8,476

9. OTHER ASSETS

At June 30, 2008 and 2007, other assets consisted of the following (in thousands):

	2008	2007
Repossessed and foreclosed properties	$ 3,594	2,672
Executed land	4,699	4,699
Total	$ 8,293	7,371

Repossessed and foreclosed properties consist mainly of properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. Gain or loss is recognized at the time of sale.

Differences resulting from recognition of losses at the point of sale rather than upon foreclosure, as required by accounting principles generally accepted in the United States of America, are not material. Management believes that the carrying value of these properties approximates its fair value.

As of June 30, 2008 and 2007, a total of 14,618 square meters of land remained under the possession of the System. According to an independent appraisal as of June 8, 2005, the estimated market value of this land approximates $22.8 million.

10. BONDS PAYABLE

Senior Pension Funding Bonds

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System has authorized the issuance of one or more series of bonds (the Bonds) in order to increase the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The System will pledge future Employer Contributions to the payment of the Bonds, invest the proceeds of the Bonds and use these investments and the earnings thereon to provide such pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds).

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The outstanding balance of the Employee's Retirement System Senior Pension Funding Bonds is comprised of the following obligations (in thousands):

Description		2008
Serie A -		
Capital Appreciation Bonds, maturing through 2028, with interest rate of 6.20%	$	46,197
Term Bonds, maturing through 2023, with interest rate of 5.85%		200,000
Term Bonds, maturing from 2031 through 2038, with interest rate of 6.15%		679,000
Term Bonds, maturing from 2039 through 2042, with interest rate of 6.20%		332,770
Term Bonds, maturing from 2055 through 2058, with interest rate of 6.45%		332,000
		1,589,967
Serie B -		
Capital Appreciation Bonds, maturing from 2028 through 2030, with interest rate of 6.40%		141,787
Capital Appreciation Bonds, maturing from 2031 through 2034, with interest rate of 6.45%		101,984
Term Bonds, maturing through 2031, with interest rate of 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, with interest rate of 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, with interest rate of 6.55%		429,000
		1,059,871
Serie C -		
Capital Appreciation Bonds, maturing through 2030, with interest rate of 6.50%		2,203
Term Bonds, maturing through 2028, with interest rate of 6.15%		110,000
Term Bonds, maturing through 2038, with interest rate of 6.25%		45,000
Term Bonds, maturing through 2043, with interest rate of 6.30%		143,000
		300,203
Total bonds outstanding		2,950,041
Less: Bonds discounts		(7,857)
Net bonds payable	$	2,942,184

Series A The Series A Bonds issued on January 31, 2008 in the aggregate principal amount of approximately $1,589 million as term bonds (the Term Bonds) and as capital appreciation bonds (the Capital Appreciation Bonds), in the principal amounts of $1,544 million and $45 million, respectively, bearing interest rates from 5.85% to 6.45% and maturing from 2023 through 2058. Interest on the Series A Bonds accrued, or compound (in the case of Capital Appreciation Bonds), from their date of delivery. Interest in the Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 (each, a Compounding Date), and are treated as if accruing

in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Capital Appreciation Bonds, the Accreted Amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium. The Series A Bond has the following debt service requirements (in thousands):

Year ending June 30,	Principal	Interest
2009	$ —	40,059
2010	—	95,504
2011	—	95,504
2012	—	95,504
2013	-	95,504
2014-2018	-	477,522
2019-2023	120,000	474,596
2024-2028	80,000	423,702
2029-2033	52,541	530,476
2034-2038	538,000	366,469
2039-2043	466,270	173,749
2044-2048	—	107,070
2049-2053	—	107,070
2054-2058	251,150	90,476
2059	80,850	5,215
Principal outstanding and interest	1,588,811	3,178,420
Add (deduct): Accreted value on bonds outstanding	1,156	(1,156)
	$ 1,589,967	3,177,264

Series B -- The Series B Bonds issued on June 2, 2008 in the aggregate principal amount of approximately $1,059 million as term bonds (the Term Bonds) and as capital appreciation bonds (the Capital Appreciation Bonds), in the principal amounts of $816 million and $243 million, respectively, bearing interest rates from 6.25% to 6.55% and maturing from 2028 through 2058. Interest on the Series B Bonds accrued, or compound (in the case of Capital Appreciation Bonds), from their date of delivery. Interest in the Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 (each, a Compounding Date), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Capital Appreciation Bonds, the Accreted Amount) of the Series B Bonds, plus accrued interest to the redemption date, and

without premium. The Series B Bond has the following debt service requirements (in thousands):

Year ending June 30,		Principal	Interest
2009	$	—	4,223
2010		—	52,428
2011		—	52,428
2012			52,428
2013		—	52,428
2014-2018		—	262,141
2019-2023		—	262,141
2024-2028			262,141
2029-2033		308,171	819,866
2034-2038		186,464	431,277
2039-2043		135,000	153,255
2044-2048		—	140,498
2049-2053		—	140,498
2054-2058		288,750	121,585
2059		140,250	9,186
Principal outstanding and interest		1,058,635	2,816,523
Add (deduct): Accreted value on bonds outstanding		1,236	(1,236)
	$	1,059,871	2,815,287

Series C -- The Series C Bonds issued on June 30, 2008 in the aggregate principal amount of approximately $300 million as term bonds (the Term Bonds) and as capital appreciation bonds (the Capital Appreciation Bonds), in the principal amounts of $298 million and $2 million, respectively, bearing interest rates from 6.15% to 6.50% and maturing from 2028 through 2043. Interest on the Series C Bonds accrued, or compound (in the case of Capital Appreciation Bonds), from their date of delivery. Interest in the Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 (each, a Compounding Date), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Capital Appreciation Bonds, the Accreted Amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium. The Series C Bond has the following debt service requirements (in thousands):

Year ending June 30,		Principal	Interest
2010		—	18,638
2011			18,587
2012		—	18,587
2013		—	18,587
2014		—	18,587
2015-2019		—	92,935
2020-2024		—	92,935
2025-2029		110,000	78,455
2030-2034		10,683	65,553
2035-2039		36,520	53,430
2040-2044		143,000	27,026
Principal outstanding and interest	$	300,203	503,320
Total Series	$	2,950,041	6,495,871

Activity of bonds payable during the year ended June 30, 2008 is as follows:

		June 30, 2008					
		2007	Issuances	Accretion	Payments	2008	Current Portion
Serie A -	$						
Capital Appreciation Bonds		—	45,041	1,156		46,197	
Term Bonds		—	1,543,770	—	—	1,543,770	—
			1,588,811	1,156	—	1,589,967	—
Serie B -							
Capital Appreciation Bonds		—	242,535	1,236	—	243,771	—
Term Bonds		—	816,100		—	816,100	—
		—	1,058,635	1,236		1,059,871	—
Serie C -							
Capital Appreciation Bonds		—	2,203	—		2,203	
Term Bonds		—	298,000	—		298,000	
		—	300,203	—	—	300,203	—
Total bonds outstanding			2,947,649	2,392	—	2,950,041	—
Less: Bonds discounts		—	(7,857)	—	—	(7,857)	—
Total bonds payable, net	$	—	2,939,792	2,392	—	2,942,184	—

Pledge of Employer Contributions Pursuant to Security Agreement

The System entered into a Security Agreement with the Fiscal Agent for the benefit of the Bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted to the Fiscal Agent a security interest in, Employer Contributions made after January 31, 2008, which was the date of issuance of the first series of Bonds, and the funds on deposit with the Fiscal Agent under the various account established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the Bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection an security of the owners of the Bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the Bonds over any other Bond, except as expressly provided in or permitted by the Resolution. The pledge by the System of the Pledged Funds, which consist of all Employer Contributions that are made after January 31, 2008, which was the date of issuance of the first series of Bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the Bonds, is irrevocable so long as any Bonds are outstanding under the terms of the Resolution.

11. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex or health status.

12. REIMBURSEMENT CLAIM

The System, besides receiving contributions from plan members and the plan sponsor, also receives legislative appropriations from special laws to cover the increase in benefits to retirees. There have been several acts which established an increase of 3% in pension annuities every three years for those members who meet the requirements outlined by these acts (Act No. 10 of May 21, 1992, Act No. 207 of August 13, 1995, Act No. 221 of August 9, 1998, Act No. 40 of June 13, 2001, and Act No. 157 of June 27, 2003). Also there have been other laws that granted additional benefits, such as, summer and Christmas bonuses, and medical plan contributions, among others. Most of the funds needed to cover these benefits are budgeted by the Commonwealth through legislative appropriations. Nevertheless, the System believes that the costs of pension benefits from 1992 to June 30, 2004 pursuant to the above laws were not received in full by the System from legislative appropriations. The System had to cover approximately $34.7 million from its resources that the System believes should have been received through special laws appropriations. From these costs, as of June 30, 2008 and 2007 there were $319 thousands and $3 million, respectively, included in the financial statements as receivables from the Commonwealth of Puerto Rico.

In June 30, 2007, the System had filed a reimbursement claim with the Office of Management and Budget of the Commonwealth to collect this amount. The final outcome of this claim cannot be presently determined, therefore no accruals has been made in the System's financial statements.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Loss Contingency

The System is defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverage, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

Construction Commitments

The System has entered into various contracts with outside contractors for construction and remodeling the building facilities. The System records the liability for these contracts as progress billings are received, based on completed work. The uncompleted portion of these contracts approximated $2 million as of June 30, 2008.

* * * * *

Required Supplementary Schedules of Employers' Contributions and Funding Progress

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)
Schedule of Employer's Contribution
June 30, 2008
(In Thousands)

Year Ended June 30,		Actual Employer Contributions	Annual Required Contributions	Percentage Contributed
2008 *	$	581,285	1,191,275	48.80%
2007 **		566,524	816,472	69.39%
2006 **		559,198	816,472	68.49%
2005		374,823	578,387	64.80%
2004		330,336	578,387	57.11%
2003		330,404	802,536	41.17%
2002		308,228	802,536	38.41%

* Actual Employer Contribution for the year ended June 30, 2008 assumes:

- contribution of 9.275% of expected payroll for the Basic System Benefits, plus
- contribution of $139.9 million for Special Law Pension Benefits, plus
- contribution of $47.5 million for early retirement incentives.

* In the development of the Fiscal Year 2007-2008 Annual Required Contribution the System has adopted a level dollar amortization method with 30-year period to reflect the closing of the defined benefit plan to new entrants under System 2000 (the Retirement Savings Account Program).

** Annual Required Contributions for the years ended June 30, 2007 and June 30, 2006 is restated to remove the offset of employer contributions on behalf of System 2000 members that was applied to the normal cost, and to include the Special Law Benefits. Actual Employer Contributions are restated to include receipts for Special Law pension benefits and early retirement incentives. Those adjustments were made to allow for better comparability between the results of the current and the prior valuation.

The above liabilities are for Basic System Benefits and selected System Administered Benefits.

See notes to supplementary schedule of employers' contributions and funding progress.

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)
Schedule of Funding Progress
June 30, 2008
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability - Unit Credit (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage Covered Payroll
June 30, 2007	$ 2,891,501	16,769,512	13,878,011	17.2%	4,246,409	326.8%
June 30, 2006	2,541,331	Not determined	Not determined	Not determined	Not determined	Not determined
June 30, 2005 *	2,327,871	13,969,000	11,641,129	16.7%	4,125,866	282.2%
June 30, 2004	2,141,442	Not determined	Not determined	Not determined	Not determined	Not determined
June 30, 2003	1,947,402	11,191,357	9,243,955	17.4%	3,334,441	277.2%
June 30, 2002	1,979,677	Not determined	Not determined	Not determined	Not determined	Not determined

*Accrued liability for June 30, 2005 is restated to include the Special Law benefits. These adjustments were made to allow for better comparability between the results of the current and the prior valuation.

The above liabilities are for Basic System Benefits and Selected System Administered Benefits.

See notes to supplementary schedule of employers' contributions and funding progress.

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
Notes to Supplementary Schedules of Employer's Contribution and Funding Progress
June 30, 2008

1. SCHEDULE OF CONTRIBUTIONS

The Schedule of Contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

The System's Schedule of Contributions is based on total benefits and administration costs, net of member contribution; it includes both Commonwealth's and participating employer's contributions. The Commonwealth's and participating employer's contributions, ultimately, should cover any deficiency between pension benefits and the System's administration costs.

The information was obtained from last actuarial report as of June 30, 2007.

2. SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress provides information about the funded status of the System and the progress being made in accumulating sufficient assets to pay benefits when due. The information was obtained from the last actuarial report as of June 30, 2007.

* * * * *

Exhibit 71

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Basic Financial Statements for the Year Ended June 30, 2009, Required Supplementary Information for the Year Ended June 30, 2009, and Independent Auditors' Report

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

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Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Ave. Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Employee's Retirement System of the Government of the
Commonwealth of Puerto Rico

We have audited the accompanying statement of plan net assets of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System"), a pension trust fund of the Commonwealth of Puerto Rico, as of June 30, 2009, and the related statement of change in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2009, and the change in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the supplemental schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and do not express an opinion on it.

As discussed in Note 1 to the basic financial statements, the System held investments valued at approximately $948,544,000 (18.91% of total assets) as of June 30, 2009, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

As discussed in Note 1 to the basic financial statements, the System's unfunded actuarial accrued liability and funded ratio as of June 30, 2009, were approximately $17,101 million and 9.7%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System will not be able to fully fund pensions after the fiscal year 2020, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System.

Deloitte & Touche LLP

April 26, 2010

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affixed to original.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Introduction

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") administers retirement and other plan member benefits, such as personal, cultural and mortgages loans, occupational and non-occupational disability annuities and death benefits. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). Pension trust resources are only held in trust to pay retirement benefits to plan members. The System presents in the Management's Discussion and Analysis an overview of the annual basic financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2009. The financial performance of the System is discussed and analyzed within the context of the accompanying basic financial statements and disclosures.

Overview of the Basic Financial Statements

The Management's Discussion and Analysis introduces the System's basic financial statements. The basic financial statements include the following: (1) Statement of Plan Net Assets, (2) Statement of Changes in Plan Net Assets, and (3) Notes to the Basic Financial Statements. The System also includes additional information to supplement the basic financial statements.

Statement of Plan Net Assets and Statement of Changse in Plan Net Assets

Both these statements provide information about the overall status of the System. The System uses accrual basis accounting to prepare its basic financial statements.

The statement of plan net assets includes all of the System's assets and liabilities, with the difference reported as net assets held in trust for pension benefits. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The statement of changes in plan net assets reports the change in the System's net assets held in trust for pension benefits during the year. All current year additions and deductions are included regardless of when cash is received or paid.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for an understanding of the data provided in the statements of plan net assets and change in plan net assets.

Required Supplementary Information

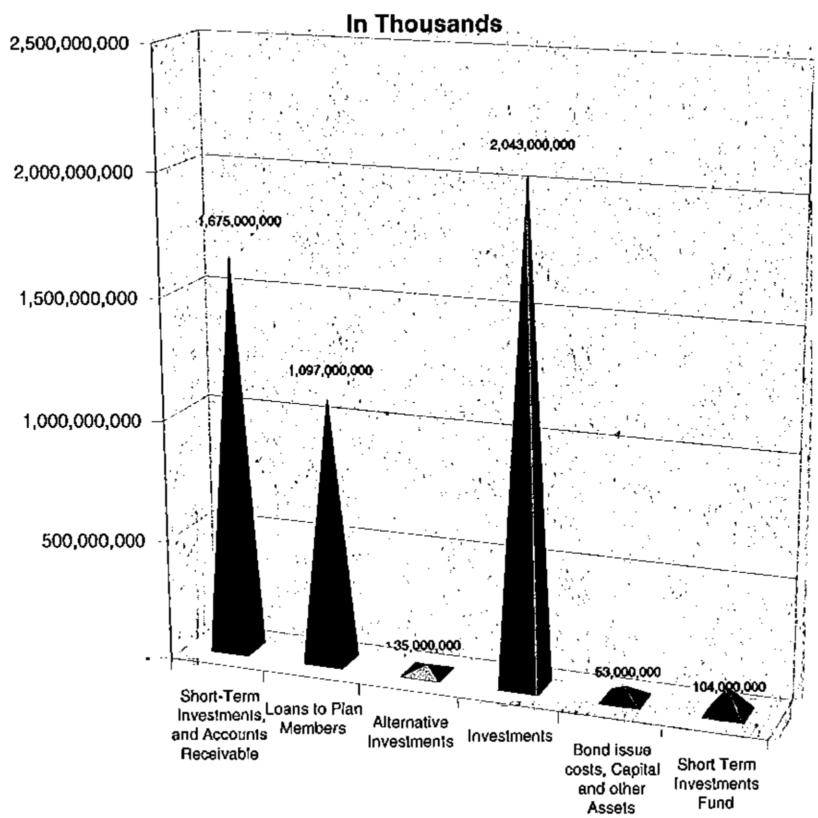
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2009 and 2008 amounted to $5,007 million and $5,772 million, respectively.

As of June 30, 2009, the System's total assets consist of the following:

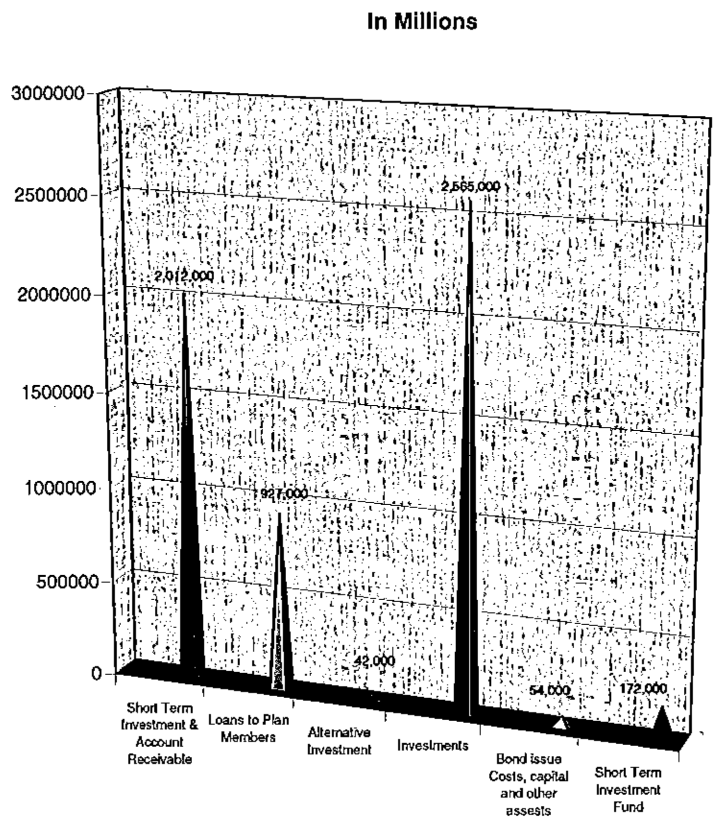
- $1,675 million in cash and short-term investments, and accounts receivable, excluding an investment in a short-term investment fund
- $1,097 million in loans and accrued interest receivable from plan members
- $35 million in private equity investments
- $2,043 million of investments in bonds and stocks
- $53 million in bond issue costs, capital and other assets
- $104 million in a short-term investment fund



As of June 30, 2008, the System's total assets consist of the following:

- $2,012 million in cash and short-term investments, and accounts receivable, excluding an investment in a short-term investment fund
- $927 million in loans to plan members
- $42 million in private equity investments
- $2,565 million of investments in bonds and stocks
- $54 million in capital and other assets
- $172 million in a short-term investment fund

The following provides a comparison of certain items within the financial statements:



The following schedules present comparative summary financial statements of the System's plan net assets and change in plan net assets for fiscal years 2009 and 2008:

Summary Comparative Statements of Plan Net Assets

	2009	2008	Total Dollar Change	Total Percentage Change
		(in thousands)		
Assets:				
Cash and short-term investments, and total accounts receivable	$ 1,778,965	$ 2,183,642	$ (404,677)	-18.5%
Investments	2,078,233	2,607,798	(529,565)	-20.3%
Loans to plan members	1,097,444	926,831	170,613	18.4%
Capital assets and other	52,425	53,595	(1,170)	-2.2%
Total assets	5,007,067	5,771,866	(764,799)	-13.3%
Liabilities:				
Accounts payable and accrued liabilities	14,228	9,310	4,918	52.8%
Book overdraft	37,961		37,961	100.0%
Payables for securities lending	103,527	171,600	(68,073)	-39.7%
Bond interest payable	13,876	12,181	1,695	13.9%
Insurance reserve for loans to plan members and investment settlements	20,298	16,559	3,739	22.6%
Bond payable	2,961,359	2,942,184	19,175	0.7%
Other liabilities	13,675	12,946	729	5.6%
Total liabilities	3,164,924	3,164,780	144	0.0%
Total net assets held in trust for pension benefits	$ 1,842,143	$ 2,607,086	$ (764,943)	-29.3%

Summary Comparative Statements of Change in Plan Net Assets

	2009	2008	Total Dollar Change	Total Percentage Change
	(in thousands)			
Additions:				
Contributions:				
Employers	$ 400,405	$ 380,833	$ 19,572	5.1%
Participating employees	362,040	345,614	16,426	4.8%
Special laws	192,254	177,867	14,387	8.1%
Early retirement	47,146	141,724	(94,578)	-66.7%
Investment loss	(351,633)	(93,910)	(257,723)	274.4%
Other	35,878	31,007	4,871	15.7%
Total additions	686,090	983,135	(297,045)	-30.2%
Deductions:				
Retirement and other benefits	1,174,629	1,129,280	45,349	4.0%
Refunds of contributions	34,530	40,366	(5,836)	-14.5%
Interest on bonds payable	186,869	46,996	139,873	297.6%
General and administrative	32,590	31,610	980	3.1%
Other	22,415	19,298	3,117	16.2%
Total deductions	1,451,033	1,267,550	183,483	14.5%
Decrease in plan net assets	$ (764,943)	$ (284,415)	$ (480,528)	169.0%

- The System total assets exceeded total liabilities by $1,842 million (plan net assets) for the fiscal year reported compared to the prior year, for which assets exceeded liabilities by $2,607 million.
- Based on the last actuarial valuation as of June 30, 2009, the System's funding ratio of the actuarial accrued liability is 9.7%.
- Loans to plan members amounted to $1,097 million as of June 30, 2009, compared to $927 million as of June 30, 2008.

The basic financial statements of the System for the fiscal year ended June 30, 2009 present a decrease in plan net assets of $765 million as compared to the prior fiscal year. This was mostly the result of a decrease in cash and short-term investments of $422 million and a decrease in investments of $530 million, which was partially offset by an increase in loans and interest receivable from plan members of $171 million and an increase in accounts receivable of $17 million.

During fiscal year 2009, the plan member and employer contributions, including early retirement contributions, decreased by approximately $58 million, from $868 million during fiscal 2008 to $810 million during fiscal year 2009. The System recognized a net depreciation in the fair value of investments of $559 million during 2009, which represents an increase of $346 million or 162% from the $213 million recognized in 2008.

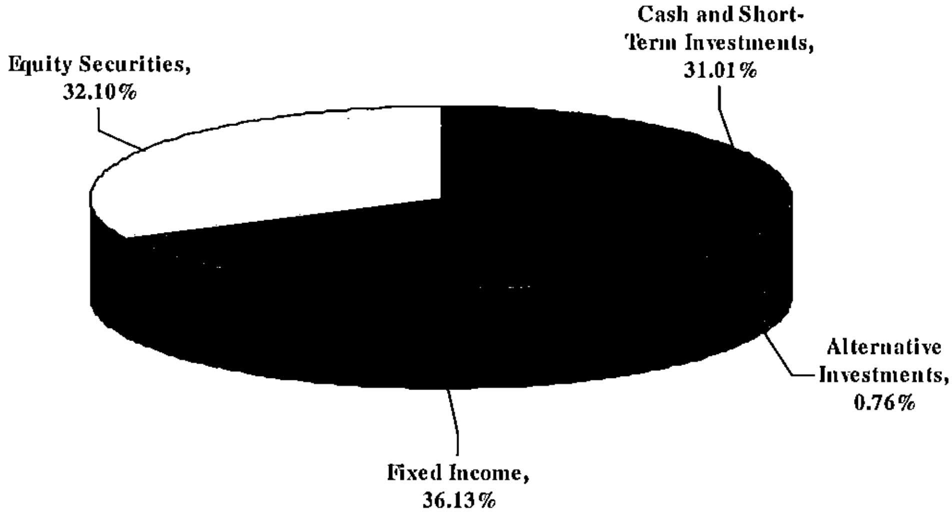
Issuance of Bonds Payable

During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds currently available to pay pension benefits to certain of its beneficiaries and to reduce its unfunded accrued actuarial pension liability. As of June 30, 2009, bonds payable amounted to $2,961 million.

Financial Analysis of the System

Facing an unstable market, in 2001 management identified the need for a portfolio restructuring. The System's portfolio moved from a very aggressive allocation of 75% toward equities to a controlled allocation of a maximum of 65% in equities. To enhance the expected annual return, the strategy concentrated in the allocation of a 28% of the total portfolio to the plan members' loans program with only 7% assigned to a core fixed income strategy. Those loans provide a higher return and lower risk in comparison to bonds, mostly because the System has the ability to increase the interest rates charged, the repayment comes from payroll deductions, and the loans are guaranteed by plan members' accumulated contributions.

The new asset allocation of the System's investment portfolio is the one that fulfills the System's needs, and since it is more adequately balanced, it provides protection in case of a market downturn. As of June 30, 2009, the asset allocation of the System's investment portfolio is 36.13% in fixed-income investments, including loans receivable, 32.10% in equity securities, 31.01% in cash and short-term investments, and 0.76% in alternative investments as shown in the following chart:



Other Investments and Transactions

As of June 30, 2009 and 2008, the System held approximately $1,097 million and $927 million, respectively, in loans and interest receivable from plan members, which represents 35% and 26%, respectively of the total investment portfolio. As of June 30, 2009, loans and interest receivable from plan members consist of $128 million in mortgage loans, $911 million in personal loans, $49 million in cultural trips loans, and $20 million in accrued interest receivable, less $10.5 million in allowance for adjustment and losses in realization. As of June 30, 2008, loans and interest receivable from plan members consist of $116 million in mortgage loans, $782 million in personal loans, $37 million in cultural trips loans, and $18 million in accrued interest receivable, less $27 million in allowance for adjustment and losses in realization. As of June 30, 2009 and 2008, the fair value of the System's investment in limited partnerships amounted to $34.9 and $42.3 million, respectively, which represents approximately 1% of the investment portfolio for each year.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally used the borrowed security to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For financial statements purposes, the amount of securities as of June 30, 2009 that was involved in the securities lending transactions was presented with the required disclosures, according to the current government accounting pronouncements. For the years ended June 30, 2009 and 2008, net income from the securities lending activity amounted to approximately $247,000 and $349,000, respectively.

Funding Status

The System was created by Act 447 of May 15, 1951, and since its inception it lacked proper planning and the levels of contributions were relatively low (and still remains low in comparison to the level of benefits). Besides, all retirement systems in place before 1951 were merged into the System, which then had to absorb all their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced, however, without the appropriate increase in the contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified, basically to decrease the benefits and to postpone the retirement age from 55 to 65 in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits will require actuarial studies and must state the financing source.

Ten years later, the continuing increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the System benefit structure was further amended to provide for a cash balance program, similar to a cash balance plan, to be funded only by employees' contributions. The new program is known as the Retirement Savings Account Program ("System 2000"). Under System 2000, the employers' contributions continue at the same level as the original defined benefit structure, but are being used to fund the accrued actuarial liability of the original defined benefit structure that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act No. 296 was enacted to amend the dispositions of Act No. 305 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act No. 296 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the System consists of three different benefit structures, which are administrated according to their specifications in the Act. For all plan members, excluding System 2000 program participants, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee's contributions range from 8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions are stated by law at 9.275% of the employee salary.

On the other hand, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in the employers or employees contributions to cope with those factors and, therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events plus the continuous increase in the actuarial liability had a negative effect over the System's actuarial unfunded liability. Based on the last actuarial valuation at June 30, 2009, the System's funded ratio is 9.5%, the actuarial obligation is $18,944 million, total actuarial value of plan assets amounted to $1,811 million, and the unfunded actuarial accrued liability amounted to $17,132 million.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. Somehow capital contributions must be increased and/or the liabilities must be reduced. Management has come up with recommendations to improve the System's financial health. Among those, the increase in employees' and employers' contribution rates stands out.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System has authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The System will pledge future employer contributions to the payment of the Bonds, invest the proceeds of the Bonds and use these investments and the earnings thereon to provide such pension benefits to its beneficiaries. On January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Increase in Benefits for Retirees Established for 2009, 2008, and 2007

For the years 2009, 2008, and 2007, the Government of Puerto Rico granted several benefits to the System's retirees to help them cope with the increase in the cost of living, which consisted of:

- Increase in the minimum monthly pension benefit from $300 to $400, effective July 1, 2007.
- Increases of 3% in all pensions effective on July 1, 2007, but computed retroactively to January 1, 2007.
- Increase from $500 to $550 and to $600 in the Christmas Bonus for the retiree, effective in December 2006 and 2007, respectively.
- Increases of 3% in all pensions lower than $1,250 effective on July 1, 2008. This increase could not exceed the amount limit of $1,250.

Following the requirements established by Act 1 of February 16, 1990, these benefits are financed through legislative appropriations from the Commonwealth with respect to Central Government retirees and financed by the municipalities and public corporations with respect to their corresponding retirees. There were no additional benefits granted for fiscal year 2009.

Capital Assets

The System's investment in capital assets as of June 30, 2009 and 2008 amounted to approximately $9.2 million and $9.8 million, respectively, net of accumulated depreciation. Capital assets include land, building and improvements, construction in progress, and equipment. The building and improvements consists of the facilities in which the System has its operations.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

* * * * * *

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2009
(In Thousands)

	2009
ASSETS:	
Cash and short-term investments:	
Deposits at commercial banks	$ 21,792
Deposits with Government Development Bank of Puerto Rico:	
Unrestricted	79,500
Restricted	1,028,878
Deposits with Bank of New York	193,537
Short-term investment fund	103,527
Total cash and short-term investments	1,427,234
Investments:	
Bonds and notes	565,366
Stocks	1,477,945
Private equity investments	34,922
Total investments	2,078,233
Total cash and investments	3,505,467
Loans and interest receivable from plan members — net of allowance for adjustments and losses in realization	1,097,444
Accounts receivable:	
Employers — net	289,427
Commonwealth of Puerto Rico	7,833
Due from the Commonwealth of Puerto Rico Judiciary Retirement System	17,942
Investments sold	24,509
Accrued investment income	6,939
Other	5,081
Total accounts receivable	351,731
Capital assets — net	9,171
Bond issue costs	34,362
Other assets	8,892
Total assets	5,007,067

(Continued)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2009
(In Thousands)

LIABILITIES:	
Accounts payable and accrued liabilities, including book overdraft of $37,961	$ 52,189
Payables for securities lending	103,527
Investments purchased	13,926
Bonds interest payable	13,876
Funds of mortgage loans and guarantee insurance reserve for loans to plan members	6,372
Bonds payable	2,961,359
Other liabilities	13,675
Total liabilities	3,164,924
CONTINGENCIES (Note 12)	
Net assets held in trust for pension benefits (Schedule of Funding Progress is presented on page 42)	$ 1,842,143

See notes to basic financial statements. (Concluded)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009
(In Thousands)

ADDITIONS:	
Contributions:	
Employers	$ 400,405
Participating employees	362,040
Early retirement	47,146
Special laws	192,254
Total contributions	1,001,845
Investment income (loss):	
Net depreciation of investments	(558,552)
Dividend income	15,774
Interest income	198,734
Total investment loss	(344,044)
Less investment expense	7,589
Net investment loss	(351,633)
Other income	35,878
Total additions	686,090
DEDUCTIONS:	
Annuities	970,843
Benefits under special laws	192,254
Death benefits	11,532
Refunds of contributions:	
Employers	2,013
Participating employees	32,517
Interest on bonds payable	186,869
General and administrative	32,590
Other expenses	22,415
Total deductions	1,451,033
NET DECREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(764,943)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	2,607,086
End of year	$ 1,842,143

See notes to basic financial statements.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The System began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the System is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2009, the System has an unfunded actuarial accrued liability of approximately $17,101 million, representing a 9.7% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the System will not able to fully fund pensions in the fiscal years starting after 2020. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the System are government agencies obligated to make actuarial contributions to fund the System.

To attend to these issues immediately, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), as an instrument for its members to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long term solutions that will help the System.

The Administrator of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration will provide technical support to the Commission and its members. After receiving all available data, the Commission must present a report to the Governor, no later than September 30, 2010, which must include specific recommendations addressing the current fiscal crisis and cash flow problems of the System.

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

Basis of Presentation — The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* as amended by GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27.* Participating employees and

employer's contributions are recognized as additions in the period in which the employee services are rendered. Annuities, benefits, and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions to net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

Cash and Short-Term Investments — Cash and short-term investments consist of overnight deposits with the custodian bank, securities lending collateral, money market funds, and certificates of deposits in Government Development Bank for Puerto Rico (GDB) (a component unit of the Commonwealth) and a commercial bank. Restricted cash deposited with GDB consists of payments received from mortgage loan holders administered by the mortgage servicers in the servicing of loans (escrow accounts), expired checks not claimed by the plan members, restricted for repayments, and proceeds of the issuance of the Series A and B Bonds restricted for investment purchases.

Investments — Investments are carried at fair value. The fair value of investments is based on quoted prices, if available. The System has investments valued at approximately $948,544,000 or 18.91% of total assets as of June 30, 2009, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers. Such investments include private equity investments and nonexchange traded mutual funds.

Securities transactions are accounted for on the trade date. Realized gains and losses on securities are determined by the average cost method and are included in the statement of change in plan net assets.

Loans to Plan Members — Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance. Maximum amounts that may be granted to plan members for mortgage, personal, and cultural trip loans are $100,000, $15,000, and $10,000, respectively.

The System services mortgage loans with aggregate principal balances of approximately $8.6 million at June 30, 2009 related to certain mortgages loans sold to Federal National Mortgage Association (FNMA) for a fee of 0.25%. The income for 2009 amounted to $21,484 and is recognized as interest income in the accompanying statement of change in plan net assets.

During 2009, the System repurchased approximately $56,641 in mortgage loans that were sold during fiscal year 1998 to FNMA. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

Insurance Premiums, Claims, and Reserve for Life Insurance on Loans to Plan Members — Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

Capital Assets — Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets, which have an initial individual cost of $500 or more at the date of acquisition and have a useful life equal to or in excess of four years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

The System evaluates capital assets under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that use the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. During the year ended June 30, 2009, management assessed and determined that no impairment adjustment was deemed necessary.

Future Adoption of Accounting Pronouncements — The GASB has issued the following accounting standards that have effective dates after June 30, 2009:

- GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*, which is effective for fiscal years beginning after June 15, 2009.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for fiscal years beginning after June 15, 2009.

The impact of these statements on the System's basic financial statements has not yet been determined.

2. PLAN DESCRIPTION

The System consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The System is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the System) are covered by the System. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the System. The System is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

At June 30, 2009, membership of the System consisted of the following

Retirees and beneficiaries currently receiving benefits	104,971
Current participating employees	160,053
Total membership	265,024

Plan members, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	**Other Employees**
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the System are left within the System until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational —

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the System, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the System on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the System to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.) as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the System to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the System, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the System's retirees. As of June 30, 2009, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2001, the Commonwealth granted three additional retirement programs through Act No. 370 of December 31, 1999, Act No. 119 of July 13, 2000, and Act No. 174 of August 12, 2000. These acts applied to employees of the Municipality of San Juan, employees of the State Insurance Fund Corporation and the employees within the three branches of the Commonwealth, respectively. These early retirement programs ended in fiscal year 2006, at which time, these employees became fully beneficiaries of the System. In order to avoid any economic impact on the System, the employers were responsible for contributing to the System the amounts to cover the benefit payments and the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2006, the Puerto Rico Industrial and Development Company (PRIDCO) implemented an early retirement program for its employees under Act No. 143, dated November 22, 2005. PRIDCO will reimburse the annuities and other benefits paid by the System during a five-year period, plus the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico National Parks Company. The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipalities' employees. Also, GDB implemented an early retirement program for its employees under the Act No. 188 of December 12, 2007. The Puerto Rico National Parks Company has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the System in three installments on each July 31 starting on 2009 through 2011. The Municipality of San Juan will reimburse the annuities and other benefits paid by the System during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (the "Administration") implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. The Administration already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (the "EQB") implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. The EQB already made the initial

payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the System on or after January 1, 2000.

Employees participating in the System as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the System, together with the assets corresponding to the defined benefit structure. There are no separate accounts for System 2000 participants. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2009, System 2000's membership consisted of 64,813 current participating employees.

3. FUNDING POLICY

The contribution requirement to the System is established by law and is not actuarially determined. Required employers' contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the System's pension benefit obligations and general and administrative deductions.

The System, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others. Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Actuarial Information — Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2009, using the projected unit credit cost method, with straight proration based on service to decrement. The significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 7.5%, except for System 2000, which is 4.5%, (b) assumed compound rate of wage increases of 3% per year, (c) assumed inflation rate of 2.5%, (d) assumed cost of living adjustment of 0.99% annual COLA to approximate 3% triennial increases, and (e) assumed mortality as follows:

- Preretirement Mortality — For general employees and mayors, RP-2000 Employee Mortality Rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA.

- Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the plan's experience from 2003-2007.

- Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.

As of June 30, 2009, the actuarial accrued liability and the unfunded actuarial accrued liability were approximately $18,944 million and $17,101 million, respectively.

The Legislature of the Commonwealth enacted Act No. 1 of February 16, 1990, to improve the solvency of the System for the next 50 years. Among other provisions, the legislation increased the level of contributions to the System, reduced the benefits for new participating employees, and increased the retirement age from 55 to 65 years. Further, through Act 305 of September 24, 1999,the original defined benefit structure was no longer available to new employees and System 2000 was created (as described in Note 2) for all plan members who started working for the Commonwealth effective January 1, 2000, or after.

As an employer, the System contributed $1,734,000, which represented its contractually required contribution for the year ended June 30, 2009.

4. FUNDED STATUS AND FUNDING PROGRESS

The System's funded status as of June 30, 2009, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Salary	UAAL as a Percentage of Annual Salary
June 30, 2009	$ 1,842,143	$ 18,943,586	$ 17,101,443	9.7 %	$ 4,292,552	398.4 %

The schedule of funding progress (see page 42), presented as required supplementary information (RSI) following the notes to the financial statements, present multilayer trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation date	June 30, 2009
Actuarial cost method	Projected unit credit cost method, with straight proration based on service to decrement
Amortization method	30 years closed, level dollar
Remaining amortization period	28 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	3.00% (no increase in 2009–10 and 2010–11)
Projected payroll growth	2.5%
Inflation	2.5%
Mortality rate	Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA. Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the plan's experience from 2003-2007. Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.
Cost of living adjustment	0.99% annual COLA to approximate 3% triennial increases.

5. CASH AND INVESTMENTS

Custodial Credit Risk Related to Deposits — Custodial credit risk is the risk that, in an event of a bank failure, the System's deposits might not be recovered. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, Bank of New York, and with other non-Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

As of June 30, 2009, depository bank balances of approximately $1,428 million were uninsured and uncollateralized as follows (in thousands):

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Deposits at commercial banks	$ 21,792	$ 21,792	$ 21,792
Deposits with GDB	1,108,378	1,109,013	1,109,013
Deposits with Bank of New York	193,537	193,537	193,537
Short-term investments	103,527	103,527	103,527
Total	$ 1,427,234	$ 1,427,869	$ 1,427,869

Investments — The fair value of investments in marketable securities held by the System as of June 30, 2009, is as follows (in thousands):

Bonds:	
U.S. government and sponsored agencies' securities	$ 323,553
Municipal bonds	35,405
U.S. corporate bonds	206,408
Total bonds	565,366
Stocks:	
U.S. corporate stocks	564,323
Non-exchange traded mutual funds:	
U.S.	488,698
Non-U.S.	424,924
Total stocks	1,477,945
Private equity investments	34,922
Total investments	$2,078,233

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2009:

Custodial Credit Risk Related to Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2009, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, State Street Bank and Trust and Bank of New York, except for securities lent.

Credit Risk — All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted-average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings.

The System's U.S. government and sponsored agencies' securities portfolio includes approximately $83,024,000 of U.S. Treasury notes and approximately $35,619,000 of mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government. The Moody's ratings of bonds as of June 30, 2009, excluding U.S. Treasury notes and mortgage-backed securities guaranteed by GNMA are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$204,909
Aaa	U.S. corporate bonds	19,040
Aa1	U.S. corporate bonds	1,146
Aa2	U.S. corporate bonds	15,672
Aa3	U.S. corporate bonds	4,834
A1	U.S. corporate bonds	30,579
A2	U.S. corporate bonds	51,097
A3	U.S. corporate bonds	13,883
Baa1	U.S. corporate bonds	32,438
Baa2	U.S. corporate bonds	17,938
Baa3	U.S. corporate bonds	14,822
Ba3	U.S. corporate bonds	533
B1	U.S. corporate bonds	294
B3	U.S. corporate bonds	694
NR	U.S. corporate bonds	3,345
WR	U.S. corporate bonds	92
A3	Municipal bonds	1,679
Baa1	Municipal bonds	4,943
Baa2	Municipal bonds	6,553
Baa3	Municipal bonds	20,258
Ba1	Municipal bonds	1,974
	Total bonds	$446,723

Concentration of Credit Risk — No investment in marketable securities in any organization represents 5% or more of the System's net assets held in trust for pension benefits. The System owns shares in the State Street Bank and Trust Company S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund"). As of June 30, 2009, the fair value of the System's investment in 2,648,352 shares of the S&P 500 Fund amounted to approximately $488.7 million. The investment objective of the S&P 500 Fund is to match the return of the Standard & Poor's 500 Index.

As of June 30, 2009, the investments underlying the S&P 500 Fund had the following sector allocations:

Sector	Percentage
Information technology	18.38 %
Health care	14.00
Financial	13.58
Energy	12.41
Consumer staples	11.99
Industrials	9.85
Consumer discretionary	8.96
Utilities	4.08
Telecommunication services	3.53
Materials	3.22

Interest Rate Risk — In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed-income securities.

Investments in debt securities as of June 30, 2009, are as follows (in thousands):

			Investment Maturities (In Years)			
	Maturity From	Fair Value	Less Than 1	Between 1-5	Between 5-10	More Than 10
U.S. government and agencies securities	(2009–2039)	$323,552	$ 10,548	$ 94,204	$ 45,242	$173,559
Corporate bonds	(2009–2044)	206,407	5,932	89,569	59,214	51,692
Municipal bonds	(2011–2032)	35,407	-	4,713	8,395	22,299
Total bonds		$565,366	$ 16,480	$188,486	$112,851	$247,550

As of June 30, 2009, investment maturities as a percentage of total debt securities are as follows:

Maturity	Maximum Maturity
Less than one year	3 %
One to five years	33
More than five to ten years	20
More than ten years	44

Foreign Currency Risk — As of June 30, 2009, the System owned approximately $371 million, in an international equity commingled fund under the custody of Morgan Stanley investment bank, which represented approximately 96.8% of the total commingled fund. Also, for the year ended June 30, 2009, the System owned approximately $71 million, in an international equity commingled fund under the custody of Invesco International Equity Trust, which represented approximately 10.13% of the total commingled fund.

As of June 30, 2009, these pooled trusts had an asset mix and country allocation as shown in the following tables:

Morgan Stanley:

Assets Mix	**Percent**
Cash and equivalents	0.51 %
Future contracts	12.49
Equity securities	87.00
Total	100.00 %

Country Allocation	**Currency**	**Currency Code**	**Portfolio %**
Poland	Zlotych	PLN	0.48 %
Russia	Rubles	RUB	0.65
Eastern Europe			1.13
Austria	Euro	EUR	0.26
Belgium	Euro	EUR	0.38
Finland	Euro	EUR	1.15
France	Euro	EUR	8.39
Germany	Euro	EUR	7.82
Greece	Euro	EUR	0.36
Italy	Euro	EUR	2.22
Netherlands	Euro	EUR	2.24
Portugal	Euro	EUR	0.24
Spain	Euro	EUR	4.44
Euro Europe			27.50
India	Rupees	INR	1.08
Brazil	Real	BRL	1.35
Mexico	Pesos	MXN	0.14
Latin America			1.49
Turkey	Lira	TRY	0.84
Denmark	Kroner	DKK	0.58
Norway	Kroner	NOK	0.92
Sweden	Krona	SEK	2.17
Switzerland	Francs	CHF	6.26
United Kingdom	Pounds	GBP	18.79
Non-Euro Europe			28.72
Australia	Dollars	AUD	3.16
China	Yuan Renmimbi	CNY	2.25
Hong Kong	Dollars	HKD	4.05
Indonesia	Rupiahs	IDR	0.64
Japan	Yen	JPY	25.61
Malaysia	Ringgits	MYR	0.02
New Zealand	Dollars	NZD	0.01
Singapore	Dollars	SGD	2.24
Taiwan	New Dollars	TWD	0.75
Pacific			38.73
Cash			0.51
Total			100.00 %

Invesco:

Assets Mix	Percent
Short-term investments	3.12 %
Foreign stock	96.88
Total	100.00 %

Country Allocation	Currency	Currency Code	Portfolio %
Canada	Dollars	CAD	2.69
Finland	Euro	EUR	1.98
France	Euro	EUR	9.05
Germany	Euro	EUR	4.27
Netherlands	Euro	EUR	8.92
Italy	Euro	EUR	2.25
Spain	Euro	EUR	3.82
Euro Europe			30.29
Norway	Kroner	NOK	0.91
Sweden	Krona	SEK	1.40
Switzerland	Francs	CHF	6.63
United Kingdom	Pounds	GBP	19.85
Non-Euro Europe			28.79
Australia			2.30
Hong Kong	Dollars	HKD	4.08
Japan	Yen	JPY	22.24
Pacific			28.62
Other Countries Invesco — Emerging Markets Equity Trust			6.49
Total			96.88 %

Investments in Limited Partnerships — The fair value of investments in limited partnerships as of June 30, 2009, amounted to approximately $34.9 million and is presented within private equity investments in the statements of plan net assets. The allocations of net gain and net loss to limited partners are based on certain percentages, as established in the limited partnership agreements. The investments in limited partnerships were as follows:

- During fiscal year 2009, approximately $249,000 were invested in Guayacán Fund of Funds, L.P., a Delaware limited partnership, created by Grupo Guayacán, Inc. as General Partner in which the System has a total commitment of $25 million. This fund has commitments to invest in fifteen (15) U.S. based and international venture partnerships and familiarizes the local pension funds with the private equity asset class without the risks inherent in geographically constrained investments.
- During fiscal year 2009, approximately $142,000 were invested in Guayacán Fund of Funds II, L.P., a Delaware limited partnership created by Grupo Guayacán, Inc., as General Partner, in which the System has a total commitment of $25 million. This fund seeks to provide investors with a superior investment return and extensive diversification by investing in nineteen (19) private equity

investment partnerships in the United States and Europe. This fund also invests a portion of its assets in a Puerto Rico based private equity investment entity.

- During fiscal year 2009, approximately $238,000 were invested in Guayacán Private Equity Fund, L.P., a limited partnership organized pursuant to the laws of the State of Delaware and authorized to engage in business in the Commonwealth of Puerto Rico, in which the System has a total commitment of $5 million. The purpose of this partnership is to make equity investments in privately held companies as established in its charter.

- During fiscal year 2009, approximately $3 million were invested in Guayacán Private Equity Fund II, L.P., a limited partnership organized in April 2007, pursuant to the laws of the State of Delaware, in which the System has a total commitment of $15 million. This partnership intends to seek out, invest in, and add value to companies, which will be based or operating in Puerto Rico or in companies whose products or services are targeted at the U.S.-Hispanic market, with specific interest in those companies where Advent-Morro's Equity Partners, Inc. Puerto Rico contact, know-how and track record can be leveraged to enhance investment selection and post-investment value-add. Guayacán Private Equity Fund II, LP will strive to have a balanced mix of portfolio investments primarily focusing on later stage opportunities such as: expansion financing, leveraged buyouts, management buyouts, and recapitalizations. This partnership may invest in de-novo companies that are being set up to enter established industries via market consolidation opportunities and/or internal growth.

- During fiscal year 2009, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico corporation organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act, which is managed by Advent-Morro Equity Partners (Advent-Morro), in which the System has a total commitment of $800 thousand. Advent-Morro is a Puerto Rico based private equity firm. This fund was created to make private equity investments in operating companies, which are based, are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

- During fiscal year 2009, approximately $389,000 were invested in GF Capital Private Equity Fund, L.P., a limited partnership organized under the laws of the State of Delaware, in which the System has a total commitment of $25 million. The purpose of this partnership is to make private equity investments in a variety of industries, including media and entertainment, branded consumer products, and software for media and telecommunications applications. This partnership's initiatives are focused on companies capitalized at between $20 to $400 million with a representation of buy-outs, growth capital, and recapitalizations.

- During fiscal year 2009, approximately $372,000 were invested in Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD, a limited partnership, organized by Chase as General Partner, in which the System has a total commitment of $20 million. This fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors, including buyouts, growth equity, venture capital, and other special situations through partnership and direct investments.

- The investment in Martineau Bay represents an investment in a hotel resort that filed under Chapter 11 of the United States Bankruptcy Code.

As of June 30, 2009, the date of commitment, total commitment, 2009 contributions, contributions to date at cost, and estimated value of investments in limited partnerships are as follows (in thousands):

	Date of Commitment	Total Commitment	FY 09 Contributions	Contributions to Date at Cost	Estimated Value
Grupo Guayacán, Inc.:					
Guayacán Fund of Funds, L.P.	Sept. 1996	$ 25,000	$ 249	$23,637	$ 3,178
Guayacán Fund of Funds II, L.P.	Aug. 1999	25,000	142	23,666	8,939
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, L.P.	Jan. 1997	5,000	238	4,407	3,824
Guayacán Private Equity Fund II, L.P.	Apr. 2007	15,000	3,036	9,933	7,342
Venture Capital Fund, Inc.	Nov. 1995	800	-	800	721
GF Capital Management & Advisors, LLC — GF Capital Private Equity Fund L.P.	Dec. 2006	25,000	389	6,189	2,777
Chase Capital Partners Private: Equity Fund of Funds Corporate Investors II, LTD.	Jul. 2000	20,000	372	18,759	8,141
Martineau Bay Resort, s. en c. (s.e.)	Jul. 1998	1,796	-	1,796	-
Total alternative investments		$117,596	$4,426	$89,187	$34,922

Securities Lending Transactions — The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the System (the "loaned securities"). At June 30, 2009, the collateral received represented 102.27% of the fair value of the domestic securities lent and 109.40% of the fair value of the international securities lent.

The securities on loan for which collateral was received as of June 30, 2009, consisted of the following:

Securities Lent	Fair Value
U.S. government and sponsored agencies' securities	$ 72,239
U.S. corporate stocks	20,109
U.S. corporate bonds	5,941
Non-exchange traded mutual funds:	
U.S.	2,266
Non-U.S.	630
Total	$ 101,185

The underlying collateral for these securities had a fair value of approximately $103,527,000 as of June 30, 2009. The collateral received was invested in a short-term investment fund sponsored by the custodian bank and is included as part of cash and short-term investments in the accompanying 2009 statement of plan net assets. As of June 30, 2009, the distribution of the short-term investment fund by investment type is as follows:

Investment type	Percentage
Securities bought under agreements to resell	53.67 %
Commercial paper	20.01
Certificates of deposit	15.50
Floating rate notes	8.05
Time deposits	2.77

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

6. LOANS AND INTEREST RECEIVABLE FROM PLAN MEMBERS

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The maximum amounts that may be granted to plan members for personal and cultural trip loans are $15,000 and $10,000, respectively.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2009, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$ 910,704
Mortgage	128,366
Cultural trips	48,983
Total loans to plan members	1,088,053
Accrued interest receivable	19,902
Total loans and interest receivable from plan members	1,107,955
Less allowance for adjustments and losses in realization	(10,511)
Total loans and interest receivable from plan members — net	$ 1,097,444

7. ACCOUNTS RECEIVABLE FROM EMPLOYERS

As of June 30, 2009, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$ 121,610
Special laws	92,709
Employer and employee contributions	76,688
Interest on late payments	12,951
Total accounts receivable from employers	303,958
Less allowance for doubtful accounts receivable	(14,531)
Accounts receivable from employers — net	$ 289,427

According to Act No. 447, each employer must pay on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the System.

The accounts receivable from employers related to special laws of $92.7 million as of June 30, 2009, include approximately $18.7 million, which were billed to employers during 2007. The System has entered into installment payment agreements with approximately 71% of these employers, while the remaining 29% of employers have not accepted or rejected the amounts billed by the System.

An allowance for doubtful accounts receivable of $5.5 million has been established for the amounts billed to these employers, which as of end of fiscal year have not replied to the System, either accepting or rejecting the amount billed to them, including a $3.4 million allowance on the amounts receivable from Medical Service Administration. It is the System's management understanding that the remaining receivable balances do not need an allowance for doubtful accounts since these employers have consistently showed an acceptable payment history toward the System.

As of June 30, 2009, accounts receivable from employers include accounts receivable from the Medical Service Administration (ASEM, by its Spanish acronym) of approximately $45.2 million from as follows (in thousands):

Employer and employee contributions	$ 32,419
Special laws	10,969
Early retirement program	5,160
Interest	9,080
Total accounts receivable from ASEM	57,628
Less allowance for doubtful accounts receivable	(12,465)
Accounts receivable from ASEM — net	$ 45,163

ASEM has not paid the System the corresponding employer contributions, early retirement program contributions, special laws contributions, and contributions withheld from employees since fiscal year 2005. The System has made all the necessary efforts to collect the amounts owed by ASEM. These efforts include meetings with the Executive Officer of ASEM, the Legislature and the Senate of the Commonwealth, in order to establish a possible payment plan. Nevertheless, the System believes that eventually it will collect the majority of these receivables from ASEM or by legislative appropriations. As of June 30, 2009, the System has established an allowance for doubtful accounts receivable from ASEM of $12.5 million.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 969	$ -	$ -	$ 969
Construction in progress	3,075	-	-	3,075
Total capital assets, not being depreciated	4,044	-	-	4,044
Capital assets, being depreciated:				
Building and improvements	7,631	-	-	7,631
Equipment	11,904	100	1,156	10,848
Total capital assets, being depreciated	19,535	100	1,156	18,479
Less accumulated depreciation for:				
Building and improvements	3,568	113	-	3,681
Equipment	10,171	1,075	1,575	9,671
Total accumulated depreciation	13,739	1,188	1,575	13,352
Total capital assets being depreciated — net	5,796	(1,088)	(419)	5,127
Total capital assets — net	$ 9,840	$ (1,088)	$ (419)	$ 9,171

9. OTHER ASSETS

As of June 30, 2009, other assets consist of (in thousands):

Executed land	$ 4,699
Repossessed and foreclosed properties	4,193
Total	$ 8,892

Repossessed and foreclosed properties consist mainly of properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP in the United States of America, are not material. Management believes that the carrying value of these properties approximates fair value.

As of June 30, 2009, a total of 14,618 square meters of land remained under the possession of the System. According to an independent appraisal performed as of June 8, 2005, the estimated market value of this land was approximately $22.8 million.

10. BONDS PAYABLE

Senior Pension Funding Bonds — On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the "Fiscal Agent"), presented to the board of trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the "Series A Bonds"). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the "Series B Bonds"). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the "Series C Bonds").

As of June 30, 2009, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 49,105
Term Bonds, maturing in 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,592,875
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	151,006
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	108,668
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,075,774
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	2,349
Term Bonds, maturing in 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,349
Total bonds outstanding	2,968,998
Less bonds discount	(7,639)
Bonds payable — net	$ 2,961,359

Series A Bonds — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds (the "Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium. The Series A Bonds have the following debt service requirements (in thousands):

Year ending June 30,	Principal	Interest
2010	$ -	$ 95,504
2011		95,504
2012		95,504
2013		95,504
2014		95,504
2015–2019		477,522
2020–2024	200,000	467,576
2025–2029	45,041	530,660
2030–2034	11,500	418,375
2035–2039	667,500	333,382
2040–2044	332,770	144,907
2045–2049		107,070
2050–2054		107,070
2055–2059	332,000	74,278
Principal outstanding and interest	1,588,811	3,138,360
Add (deduct) accreted value on bonds outstanding	4,064	(4,064)
Total Series B Bonds	$1,592,875	$3,134,296

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and $243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium. The Series B Bonds have the following debt service requirements (in thousands):

Year ending June 30,	Principal	Interest
2010	$ -	$ 52,428
2011		52,428
2012		52,428
2013		52,428
2014		52,428
2015–2019		262,141
2020–2024		262,141
2025–2029	34,028	348,683
2030–2034	299,144	823,871
2035–2039	228,963	324,907
2040–2044	67,500	144,750
2045–2049		140,498
2050–2054		140,498
2055–2059	429,000	102,671
Principal outstanding and interest	1,058,635	2,812,301
Add (deduct) accreted value on bonds outstanding	17,139	(17,139)
Total Series B Bonds	$1,075,774	$2,795,162

Series C Bonds — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium. The Series C Bonds have the following debt service requirements (in thousands):

Year ending June 30,	Principal	Interest
2010	$ -	$ 18,638
2011	-	18,587
2012	-	18,587
2013	-	18,587
2014		18,587
2015–2019	-	92,935
2020–2024	-	92,935
2025–2029	110,000	78,455
2030–2034	10,683	65,553
2035–2039	36,520	53,430
2040–2044	143,000	27,026
Principal outstanding and interest	300,203	503,320
Add (deduct) accreted value on bonds outstanding	146	(146)
Total Series C Bonds	$ 300,349	$ 503,174
Total bonds	$2,968,998	$6,719,490

Activity of bonds payable during the year ended June 30, 2009, is as follows:

	December 31, 2008	Issuances	Accretion	Payments	December 31, 2009	Current Portion
Series A Bonds:						
Capital appreciation bonds	$ 46,197	$ -	$ 2,908	$ -	$ 49,105	$ -
Term bonds	1,543,770	-	-	-	1,543,770	-
Total Series A Bonds	1,589,967	-	2,908	-	1,592,875	-
Series B Bonds:						
Capital appreciation bonds	243,771	-	15,903	-	259,674	-
Term bonds	816,100	-	-	-	816,100	-
Total Series B Bonds	1,059,871	-	15,903	-	1,075,774	-
Series C Bonds:						
Capital appreciation bonds	2,203	-	146	-	2,349	-
Term bonds	298,000	-	-	-	298,000	-
Total Series C Bonds	300,203	-	146	-	300,349	-
Total bonds outstanding	2,950,041	-	18,957	-	2,968,998	-
Less bond discounts	(7,857)	-	218	-	(7,639)	-
Total bonds payable — net	$ 2,942,184	$ -	$ 19,175	$ -	$ 2,961,359	$ -

Pledge of Employer Contributions Pursuant to Security Agreement — The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the System of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

11. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

12. CONTINGENCIES

Loss Contingencies — The System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverage, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

Gain Contingency — The System, besides receiving contributions from participants and employers, also receives legislative appropriations from special laws to cover the increase in benefits to retirees. There have been several acts, which established an increase of 3% in pension annuities every three years for those members who meet the requirements outlined by these acts (Act No. 10 of May 21, 1992, Act No. 207 of August 13, 1995, Act No. 221 of August 9, 1998, Act No. 40 of June 13, 2001, and Act No. 157 of June 27, 2003). Also, there have been other laws that granted additional benefits, such as, summer and Christmas bonuses, and medical plan contributions, among others. Most of the funds needed to cover these benefits are budgeted by the Commonwealth through legislative appropriations. Nevertheless, the costs of pension benefits that increased from 1992 to 2004 were not received in full by the System from legislative appropriations. The System had to use approximately $34.7 million from its resources that should have been received from legislative appropriations.

In June 30, 2007, the System filed a reimbursement claim with the Office of Management and Budget of the Commonwealth to collect the remaining unfunded special laws appropriations. The final outcome of this claim cannot be presently determined; therefore, no receivable has been recorded in the System's financial statements.

* * * * * *

REQUIRED SUPPLEMENTARY SCHEDULES OF EMPLOYERS' CONTRIBUTIONS AND FUNDING PROGRESS

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS
AS OF JUNE 30, 2009
(In thousands)

Years Ended June 30	Actual Employer Contributions	Annual Required Contributions	Percentage Contributed
2010*	$ 590,742	$ 1,459,774	40.47 %
2009	594,509	1,258,695	47.23
2008	581,285	1,191,275	48.80
2007	566,524	816,472	69.39
2006	559,198	816,472	68.49
2005	374,823	578,387	64.80
2004	330,336	578,387	57.11

* Actual employer contributions for the year ended June 30, 2010, assumes:
  Contribution of 9.275% of expected payroll for the basic system benefits, plus
  Contribution of $149.9 million for special law pension benefits, plus
  Contribution of $42.7 million for early retirement incentives.

The above liabilities are for basic System benefits and selected System administered benefits.

See notes to supplementary schedule of employers' contributions and funding progress.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2009
(In thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Unit Credit (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage Covered Payroll
June 30, 2009	$ 1,842,143	$ 18,943,586	$ 17,101,443	9.7 %	$ 4,292,552	398.4 %
June 30, 2008	2,607,086	Not determined	Not determined	Not determined	Not determined	Not determined
June 30, 2007	2,891,501	16,769,512	13,878,011	17.2	4,246,409	326.8
June 30, 2006	2,541,331	Not determined	Not determined	Not determined	Not determined	Not determined
June 30, 2005*	2,327,871	13,969,000	11,641,129	16.7	4,125,866	282.2
June 30, 2004	2,141,442	Not determined	Not determined	Not determined	Not determined	Not determined

The above liabilities are for basic System benefits and selected System administered benefits.

See notes to supplementary schedule of employers' contributions and funding progress.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

NOTES TO SUPPLEMENTARY SCHEDULES OF EMPLOYERS' CONTRIBUTIONS AND FUNDING PROGRESS AS OF JUNE 30, 2009

1. SCHEDULE OF CONTRIBUTIONS

The schedule of employers' contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

The System's schedule of employers' contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employees' contributions, pension benefits, and the System's administration costs.

The information was obtained from the last actuarial report as of June 30, 2009.

2. SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress provides information about the funded status of the System and the progress being made in accumulating sufficient assets to pay benefits when due. The information was obtained from the last actuarial report as of June 30, 2009.

* * * * * *

Exhibit 72

Deloitte.

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Basic Financial Statements as of and for the
Year Ended June 30, 2010, Required Supplementary
Information as of and for the year ended June 30, 2010,
and Independent Auditors' Report

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

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Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Avenue - Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Employee's Retirement System of the Government of
the Commonwealth of Puerto Rico

We have audited the accompanying statement of plan net assets of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System"), a pension trust fund of the Commonwealth of Puerto Rico, as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2010, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and supplemental schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and do not express an opinion on it.

As discussed in Note 1 to the basic financial statements, the System held investments valued at approximately $1,164,303,000 (24 % of total assets) as of June 30, 2010, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

As discussed in Note 1 to the basic financial statements, the System's unfunded actuarial accrued liability and funded ratio as of June 30, 2010, were $17,836,770 million and 8.5% respectively. In the opinion of management, based on information prepared by consulting actuaries, the System will not be able to fully fund pensions after the fiscal year 2014, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System. Management's plans concerning this matter are also described in Note 1.

Deloitte & Touche LLP

March 18, 2011

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affixed to original.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Introduction

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") administers retirement and other plan member benefits, such as personal, cultural and mortgages loans, occupational and non-occupational disability annuities and death benefits. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). Pension trust resources are only held in trust to pay retirement benefits to plan members. The System presents in the Management's Discussion and Analysis an overview of the annual basic financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2010. The financial performance of the System is discussed and analyzed within the context of the accompanying basic financial statements and disclosures.

Overview of the Basic Financial Statements

The Management's Discussion and Analysis introduces the System's basic financial statements. The basic financial statements include the following: (1) Statement of Plan Net Assets, (2) Statement of Changes in Plan Net Assets, and (3) Notes to the Basic Financial Statements. The System also includes additional information to supplement the basic financial statements.

Statement of Plan Net Assets and Statement of Changes in Plan Net Assets

Both these statements provide information about the overall status of the System. The System uses the accrual basis of accounting to prepare its basic financial statements.

The statement of plan net assets includes all of the System's assets and liabilities, with the difference reported as net assets held in trust for pension benefits. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The statement of changes in plan net assets reports the change in the System's net assets held in trust for pension benefits during the year. All current year additions and deductions are included regardless of when cash is received or paid.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for an understanding of the data provided in the statements of plan net assets and change in plan net assets.

Required Supplementary Information

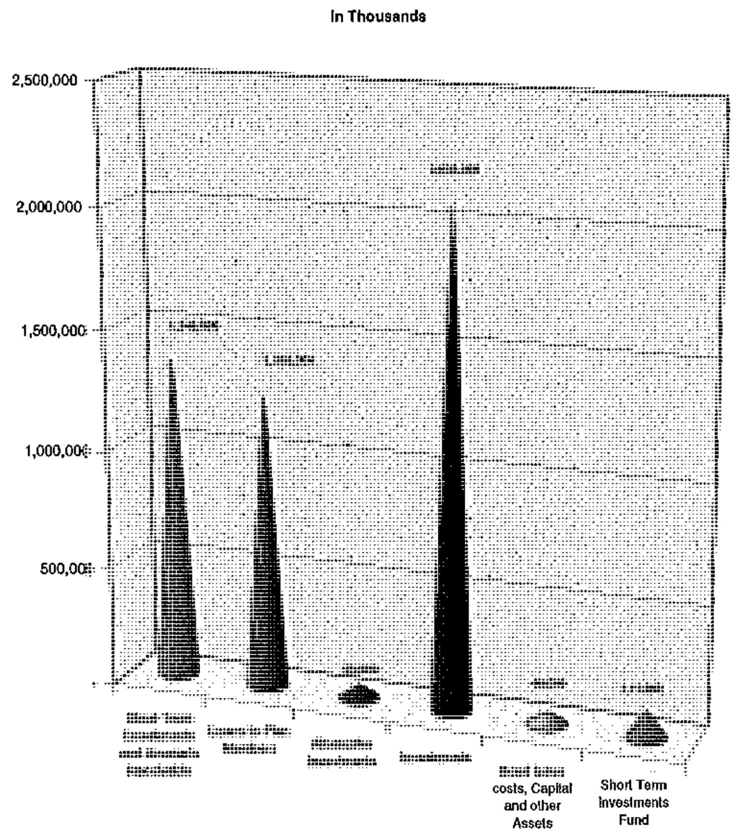
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2010 and 2009, amounted to $4,843 million and $5,007 million, respectively.

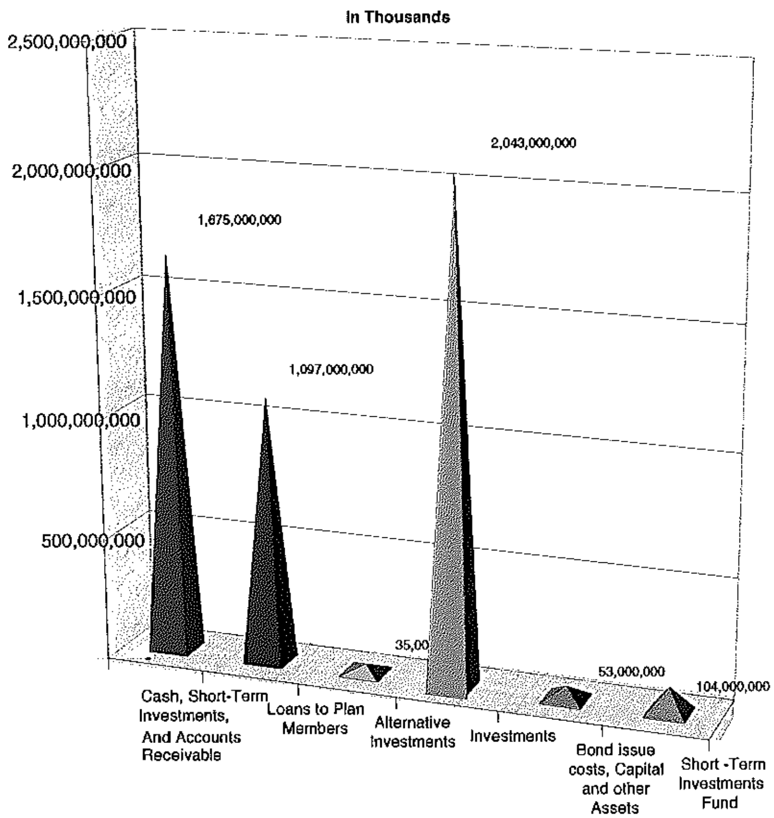
As of June 30, 2010, the System's total assets consist of the following:

- $1,345 million in cash and short-term investments, and accounts receivable, excluding collateral for securities lending
- $1,226 million in loans and accrued interest receivable from plan members
- $55 million in private equity investments
- $2,056 million of investments in bonds and stocks
- $49 million in bond issue costs, capital and other assets
- $111 million in a short-term investment fund



As of June 30, 2009, the System's total assets consisted of the following:

- $1,675 million in cash and short-term investments, and accounts receivable, excluding collateral for securities lending
- $1,097 million in loans and accrued interest receivable from plan members
- $35 million in private equity investments
- $2,043 million of investments in bonds and stocks
- $53 million in bond issue costs, capital and other assets
- $104 million in a short-term investment fund



The following schedules present comparative summary financial statements of the System's plan net assets and changes in plan net assets for fiscal years 2010 and 2009:

Summary Comparative Statements of Plan Net Assets

	2010	2009	Total Dollar Change	Total Percentage Change
		(in thousands)		
Assets:				
Cash and short-term investments, and total accounts receivable	$ 1,456,038	$ 1,778,965	$ (322,927)	-18.2%
Investments	2,111,147	2,078,233	32,914	1.6%
Loans to plan members	1,226,155	1,097,444	128,711	11.7%
Capital assets and other	49,455	52,425	(2,970)	-5.7%
Total assets	4,842,795	5,007,067	(164,272)	-3.3%
Liabilities:				
Accounts payable and accrued liabilities	12,250	14,228	(1,978)	-13.9%
Book overdraft	22,933	37,961	(15,028)	-39.6%
Payables for securities lending	110,931	103,527	7,404	7.2%
Bond interest payable	13,876	13,876	—	0.0%
Insurance reserve for loans to plan members and investment settlements	14,241	20,298	(6,057)	-29.8%
Bonds payable	2,981,775	2,961,359	20,416	0.7%
Other liabilities	21,798	13,675	8,123	59.4%
Total liabilities	3,177,804	3,164,924	12,880	0.4%
Total net assets held in trust for pension benefits	$ 1,664,991	$ 1,842,143	$ (177,152)	-9.6%

Summary Comparative Statements of Changes in Plan Net Assets

	2010	2009	Total Dollar Change	Total Percentage Change
		(in thousands)		
Additions:				
Contributions:				
Employers	$ 381,243	$ 400,405	$ (19,162)	-4.8%
Participating employees	345,265	362,040	(16,775)	-4.6%
Special laws	188,843	192,254	(3,411)	-1.8%
Early retirement	3,399	47,146	(43,747)	-92.8%
Investment income (loss)	398,610	(351,633)	750,243	213.4%
Other	31,783	35,878	(4,095)	-11.4%
Total additions	1,349,143	686,090	663,053	96.6%
Deductions:				
Retirement and other benefits	1,249,776	1,174,629	75,147	6.4%
Refunds of contributions	45,146	34,530	10,616	30.7%
Interest on bonds payable	188,055	186,869	1,186	0.6%
General and administrative	33,063	32,590	473	1.5%
Other	10,255	22,415	(12,160)	-54.2%
Total deductions	1,526,295	1,451,033	75,262	5.2%
Decrease in plan net assets	$ (177,152)	$ (764,943)	$ 587,791	76.8%

- The System total assets exceeded total liabilities by $1,665 million (plan net assets) for the current fiscal year compared to the prior year, for which assets exceeded liabilities by $1,842 million.
- Based on the last actuarial valuation as of June 30, 2010, the System's funding ratio of the actuarial accrued liability is 8.5%.
- Loans to plan members amounted to $1,226 million as of June 30, 2010, compared to $1,097 million as of June 30, 2009.

The basic financial statements of the System for the fiscal year ended June 30, 2010, presents a reduction in plan net assets of $177 million when compared to the prior fiscal year. This was mostly the result of an increase on investments of $33 million and an increase in loans and interest receivable from plan members of $129 million and an offset by a decrease in cash and account receivable of $323 million. This also includes a $23 million cash overdraft owed to the Department of Treasury.

During fiscal year 2010, the plan member and employer contributions, including early retirement contributions, decreased by approximately $80 million, from $810 million during fiscal 2009 to $730 million during fiscal year 2010. The System recognized a net appreciation in the fair value of investments of $216 million during 2010, which represents an increase in fair value of investments of $775 million from the net depreciation of $559 million recognized in 2009.

Issuance of Bonds Payable

During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds currently available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial pension liability. As of June 30, 2010, bonds payable amounted to $2,982 million.

Financial Analysis of the System

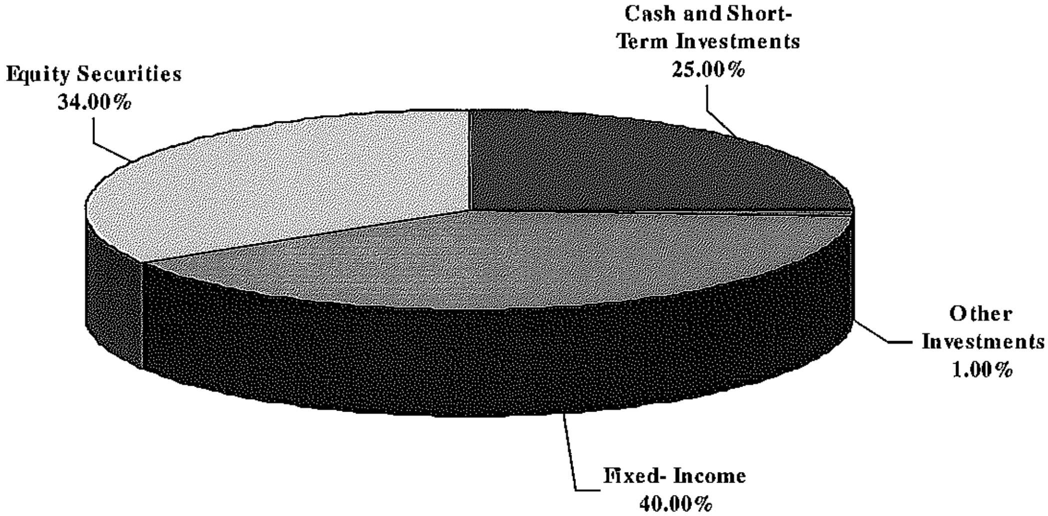
Since December 2009, the System, with the assistance of an external investment consultant, has performed various assets and liabilities studies. The purpose of these studies is to properly align the current and future liabilities of the System with its net assets.

In the development of these studies, the external consultant considered the current investment program status; actual liquidity needs; future contributions streams; possible changes in demographics, contribution flows, and general assumptions used by the System. Nevertheless, the results of these studies are long term in nature.

As of June 30, 2010, the approved asset allocation for the System is:

Asset Type	Target Allocation	Rebalance Range
Domestic Equity	35%	30%-40%
International Equity	25%	20%-30%
Private Equity	1%	0% - 3%
Domestic Fixed-Income (including loans & mortgages)	30%	15%-35%
Inv. Commodities	5%	0%-10%
Inv. Global TAA	5%	0%-10%
Cash and Equivalents	0%	0%-5%

The new asset allocation of the System's investment portfolio fulfills the System's needs, and since it is more adequately balanced, it provides protection in case of a market downturn. As of June 30, 2010, the asset allocation of the System's investment portfolio is 40 % in fixed-income investments, including loans receivable, 34% in equity securities, 25% in cash and short-term investments, and 1% in other investments as shown in the following chart:



Other Investments and Transactions

As of June 30, 2010 and 2009, the System held approximately $1,226 million and $1,097 million, respectively, in loans and interest receivable from plan members, which represents 37 % and 35%, respectively of the total investment portfolio. As of June 30, 2010, loans and interest receivable from plan members consist of $141 million in mortgage loans, $1,005 million in personal loans, $62 million in cultural trips loans, and $27 million in accrued interest receivable, less $9 million in allowance for adjustment and losses in realization. As of June 30, 2009, loans and interest receivable from plan members consist of $128 million in mortgage loans, $911 million in personal loans, $49 million in cultural trips loans, and $20 million in accrued interest receivable, less $10.5 million in allowance for adjustment and losses in realization. As of June 30, 2010 and 2009, the fair value of the System's investment in limited partnerships amounted to $55 and $35 million, respectively, which represents approximately 2% and 1% of the investment portfolio, as of June 30, 2010 and 2009.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For financial statements purposes, the amount of securities that was involved in securities lending transactions as of June 30, 2010, has been presented, along with the required disclosures, in accordance with current government accounting pronouncements. For the years ended June 30, 2010 and 2009, net income from the securities lending activity amounted to approximately $716,000 and $247,000, respectively.

Funding Status

The System was created by Act 447 of May 15, 1951, and since its inception it lacked proper planning and the levels of contributions were relatively low (and still remains low in comparison to the level of benefits). In addition, all retirement systems in place before 1951 were merged into the System, which then had to absorb all of their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced, however, without the appropriate increase in contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified to decrease the benefits and to postpone the retirement age from 55 to 65, in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits will require actuarial studies and must state the financing source.

Ten years later, the continuing increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the System benefit structure was further amended to provide for a cash balance program, similar to a cash balance plan, to be funded only by employees' contributions. The new program is known as the Retirement Savings Account Program ("System 2000"). Under System 2000, the employers' contributions continue at the same level as the original defined benefit structure, but are being used to fund the accrued actuarial liability of the original defined benefit structure that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act No. 296 was enacted to amend the dispositions of Act No. 305 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act No. 296 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the System consists of three different benefit structures, which are administrated according to their specifications in the Act. For all plan members, excluding System 2000 program participants, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee's contributions range from 8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions are 9.275% of the employee salary.

On the other hand, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in the employers or employees contributions to cope with those factors and, therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events plus the continuous increase in the actuarial liability have had a negative effect over the System's actuarial unfunded liability. Based on the last actuarial valuation at June 30, 2010, the System's funded ratio is 8.5%, the actuarial obligation is $19,502 million, total actuarial value of plan assets amounted to $1,665 million, and the unfunded actuarial accrued liability amounted to $17,837 million.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. Somehow capital contributions must be increased and/or the liabilities must be reduced. Management has come up with recommendations to improve the System's financial health. Among those, the increase in employees' and employers' contribution rates stands out.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds currently available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds and used these investments and the earnings thereon to provide such pension benefits to beneficiaries. On January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Increase in Benefits for Retirees Established for 2009, 2008, and 2007

For the years 2010, 2009, 2008, and 2007, the Government of Puerto Rico granted several benefits to the System's retirees to help them cope with the increase in the cost of living, which consisted of:

- Increase in the minimum monthly pension benefit from $300 to $400, effective July 1, 2007.
- Increases of 3% in all pensions effective on July 1, 2007, but computed retroactively to January 1, 2007.
- Increase from $500 to $550 and to $600 in the Christmas Bonus for the retiree, effective in December 2006 and 2007, respectively.
- Increases of 3% in all pensions lower than $1,250 effective on July 1, 2008. This increase could not exceed the amount limit of $1,250.

Following the requirements established by Act 1 of February 16, 1990, these benefits are financed through legislative appropriations from the Commonwealth with respect to Central Government retirees and financed by the municipalities and public corporations with respect to their corresponding retirees. There were no additional benefits granted for fiscal years 2010 and 2009.

Capital Assets

The System's investment in capital assets as of June 30, 2010 and 2009, amounted to approximately $9 million and $9.2 million, respectively, net of accumulated depreciation. Capital assets include land, building and improvements, construction in progress, and equipment. The building and improvements consists of the facilities in which the System has its operations.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

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EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2010
(In thousands)

ASSETS:	
Cash and short-term investments:	
Deposits at commercial banks	$ 54,175
Deposits with Government Development Bank for Puerto Rico:	
Unrestricted	51,446
Restricted	741,082
Deposits with Bank of New York	172,226
Collateral for securities lending	110,931
Total cash and short-term investments	1,129,860
Investments:	
Bonds and notes	563,454
Stocks	1,492,386
Private equity investments	55,307
Total investments	2,111,147
Total cash and investments	3,241,007
Loans and interest receivable from plan members — net of allowance for adjustments and losses in realization	1,226,155
Accounts receivable:	
Employers — net	273,139
Commonwealth of Puerto Rico	11,222
Due from the Commonwealth of Puerto Rico Judiciary Retirement System	19,138
Investments sold	12,189
Accrued investment income	6,597
Other	3,893
Total accounts receivable	326,178
Capital assets — net	8,964
Bond issue costs	33,267
Other assets	7,224
Total assets	4,842,795

(Continued)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2010
(In thousands)

LIABILITIES:	
Accounts payable and accrued liabilities, including book overdraft of $22,933	$ 35,183
Payables for securities lending	110,931
Investments purchased	5,277
Bond interest payable	13,876
Funds of mortgage loans and guarantee insurance reserve for loans to plan members	8,964
Bonds payable	2,981,775
Other liabilities	21,798
Total liabilities	3,177,804
CONTINGENCIES (Note 12)	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of Funding Progress is presented on page 42)	$ 1,664,991

See notes to financial statements. (Concluded)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(In thousands)

ADDITIONS:	
Contributions:	
Employers	$ 381,243
Participating employees	345,265
Early retirement	3,399
Special laws	188,843
Total contributions	918,750
Investment income:	
Net appreciation of investments	216,011
Dividend income	10,663
Interest income	179,585
Total investment income	406,259
Less investment expense	7,649
Net investment income	398,610
Other income	31,783
Total additions	1,349,143
DEDUCTIONS:	
Annuities	1,047,965
Benefits under special laws	188,843
Death benefits	12,968
Refunds of contributions:	
Employers	1,469
Participating employees	43,677
Interest on bonds payable	188,055
General and administrative	33,063
Other expenses	10,255
Total deductions	1,526,295
NET DECREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(177,152)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	1,842,143
End of year	$ 1,664,991

See notes to financial statements.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The System began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the System is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2010, the System has an unfunded actuarial accrued liability of approximately $17,837 million, representing an 8.5% funding ratio, using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not taken now to deal with this situation, the System will not be able to fully fund pensions beginning in fiscal year 2019; however, net assets held in trust for pension benefits will be exhausted during fiscal year 2014. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the System are government agencies obligated to make actuarial contributions to fund the System.

To attend to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission") to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long term solutions to improve the financial condition of the System.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of the System. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, the System and the Commonwealth, with the assistance of the System's external consulting actuaries, concluded that annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the System's investment portfolio. It is the intention of the Commonwealth to include such increase in contributions as part of its fiscal year 2012 budget and in the annual budgets thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of the System.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

Basis of Presentation — The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended by GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*. Participating employees and employer's contributions are recognized as additions in the period in which the employee services are rendered. Annuities, benefits, and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions to net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

Cash and Short-Term Investments — Cash and short-term investments consist of overnight deposits with the custodian bank, securities lending collateral, money market funds, and certificates of deposits in Government Development Bank for Puerto Rico (GDB) (a component unit of the Commonwealth) and commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders administered by the mortgage servicers in the servicing of loans (escrow accounts), expired checks not claimed by the plan members, restricted for repayments, and proceeds from the issuance of the Series A and B Bonds restricted for investment purchases.

Investments — Investments are carried at fair value. The fair value of investments is based on quoted prices, if available. The System has investments valued at approximately $1,164,303,000 or 24 % of total assets as of June 30, 2010, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers. Such investments include private equity investments and non-exchange traded mutual funds.

Securities transactions are accounted for on the trade date. Realized gains and losses on securities are determined by the average cost method and are included in the statement of changes in plan net assets.

Loans to Plan Members — Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance. Maximum amounts that may be granted to plan members for mortgage, personal, and cultural trip loans are $100,000, $15,000, and $10,000, respectively.

The System services mortgage loans with aggregate principal balances of approximately $7.3 million at June 30, 2010, related to certain mortgage loans sold to the Federal National Mortgage Association (FNMA) for a fee of .25 %. The income for 2010 amounted to $12,181 and is recognized as interest income in the accompanying statement of changes in plan net assets.

During 2010, the System repurchased approximately $216,821 in mortgage loans that were sold during fiscal year 1998 to FNMA. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

Insurance Premiums, Claims, and Reserve for Life Insurance on Loans to Plan Members — Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

Capital Assets — Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets, which have an initial individual cost of $500 or more at the date of acquisition and have a useful life equal to or in excess of four years. Capital assets are recorded at historical cost or their estimated historical cost if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

The System evaluates capital assets under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether the impairment of an asset has occurred. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System should be measured using the method that best reflects the diminished service utility of the capital asset. The impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that use the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. During the year ended June 30, 2010, management assessed and determined that no impairment adjustment was deemed necessary.

Recent Accounting Pronouncements —In June 2007, the GASB issued GASB Statement No. 51, *Intangible Assets*, which was effective for periods beginning after June 15, 2009. GASB Statement No. 51 establishes guidance on the recognition, accounting, and financial reporting for intangible assets. The adoption of this statement did not have a material effect on the System's financial statements.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which was effective for periods beginning after June 15, 2009. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The adoption of this statement did not have a material effect on the System's financial statements.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was effective upon issuance. GASB Statement No. 55 codifies all generally accepted accounting principles for state and local governments so that they derive from a single source. The adoption of this statement did not have a material effect on the System's financial statements.

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Contained in the AICPA Statements on Auditing Standards*, which was effective on issuance. The objective of GASB Statement No. 56 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. GASB Statement No. 56 addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The adoption of this statement did not have a material effect on the System's financial statements.

In December 2009, the GASB issued GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes accounting and financial reporting standards for all governments that have petitioned for relief under Chapter 9 of the U.S. Bankruptcy Code or have been granted relief under the provisions of Chapter 9, including governments that enter into bankruptcy and are not expected to emerge as a going concern. The adoption of this statement did not have a material effect on the System's financial statements.

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2010:

a. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statements for periods beginning after June 15, 2010.

b. GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is effective for financial statements for periods beginning after June 15, 2011.

c. GASB Statement No. 59, *Financial Instruments Omnibus*, which is effective for financial statements for periods beginning after June 15, 2010.

d. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for financial statements for periods beginning after December 15, 2011.

e. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*, which is effective for financial statements for periods beginning after June 15, 2012.

f. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after December 15, 2011.

The impact of these pronouncements in the System's financial statements has not yet been determined.

2. PLAN DESCRIPTION

The System consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The System is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the System) are covered by the System. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the System. The System is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

At June 30, 2010, membership of the System consists of the following:

Retirees and beneficiaries currently receiving benefits	106,538
Current participating employees — defined benefit	85,363
Cash Balance System 2000 participating employees	55,279
Total membership	247,180

Plan members, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	Other Employees
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the System are left within the System until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the System, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the System on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the System to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.), such as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the System to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the System, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the System's retirees. As of June 30, 2010, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2001, the Commonwealth granted three additional retirement programs through Act No. 370 of December 31, 1999, Act No. 119 of July 13, 2000, and Act No. 174 of August 12, 2000. These acts applied to employees of the Municipality of San Juan, employees of the State Insurance Fund Corporation and the employees within the three branches of the Commonwealth, respectively. These early retirement programs ended in fiscal year 2006, at which time, these employees became fully beneficiaries of the System. In order to avoid any economic impact on the System, the employers were responsible for contributing to the System the amounts to cover the benefit payments and the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2006, the Puerto Rico Industrial and Development Company (PRIDCO) implemented an early retirement program for its employees under Act No. 143, dated November 22, 2005. PRIDCO will reimburse the annuities and other benefits paid by the System during a five-year period, plus the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico National Parks Company. The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipality's employees. Also, GDB implemented an early retirement program for its employees under the Act No. 188 of December 12, 2007. The Puerto Rico National Parks Company has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the System in three installments on each July 31 starting on 2009 through 2011. The Municipality of San Juan will reimburse the annuities and other benefits paid by the System during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (the "Administration") implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. The Administration already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. The EQB already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the System on or after January 1, 2000.

Employees participating in the System as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the System, together with the assets corresponding to the defined benefit structure. There are no separate accounts for System 2000 participants. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2010, System 2000's membership consisted of 55,279 current participating employees.

3. FUNDING POLICY

The contribution requirement to the System is established by law and is not actuarially determined. Required employers' contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the System's pension benefit obligations and general and administrative deductions.

The System, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Actuarial Information — Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2010, using the projected unit credit cost method, with straight proration based on service to decrement. The significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 7.5%, (b) assumed compound rate of wage increases of 3% per year, (c) assumed inflation rate of 2.5%, (d) assumed cost of living adjustment of 0.99% annual COLA to approximate 3% triennial increases, and (e) assumed mortality as follows:

- Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA.

- Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the plan's experience from 2003-2007.

- Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.

As of June 30, 2010, the actuarial accrued liability and the unfunded actuarial accrued liability were approximately $19,502 million and $17,837 million, respectively.

The Legislature of the Commonwealth enacted Act No. 1 of February 16, 1990, to improve the solvency of the System for the next 50 years. Among other provisions, the legislation increased the level of contributions to the System, reduced the benefits for new participating employees, and increased the retirement age from 55 to 65 years. Further, through Act 305 of September 24, 1999, the original defined benefit structure was no longer available to new employees and System 2000 was created (as described in Note 2) for all plan members who started working for the Commonwealth effective January 1, 2000, or after.

4. FUNDED STATUS AND FUNDING PROGRESS

The System's funded status as of June 30, 2010, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
June 30, 2010	$ 1,664,991	$ 19,501,761	$ 17,836,770	8.5 %	$ 3,818,332	467.1 %

The schedule of funding progress (see page 42), presented as required supplementary information (RSI) following the notes to the financial statements, presents multilayer trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the date of the latest actuarial valuation is as follows:

Valuation date	June 30, 2010
Actuarial cost method	Projected unit credit cost method, with straight proration based on service to decrement
Amortization method	30 years closed, level dollar
Remaining amortization period	27 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.0% (no increase in 2010–11)
Projected payroll growth	2.5%
Inflation	2.5%
Mortality rate	Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA.
	Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the plan's experience from 2003-2007.
	Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.
Cost of living adjustment	0.99% annual COLA to approximate 3% triennial increases.

5. CASH AND INVESTMENTS

Custodial Credit Risk Related to Deposits — Custodial credit risk is the risk that, in an event of a bank failure, the System's deposits might not be recovered. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, Bank of New York, and with other non Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

As of June 30, 2010, depository bank balances of approximately $1,159 million were uninsured and uncollateralized as follows (in thousands):

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Deposits at commercial banks	$ 54,175	$ 54,175	$ 54,175
Deposits with GDB	792,528	821,984	821,984
Deposits with Bank of New York	172,226	172,226	172,226
Collateral for securities lending	110,931	110,931	110,931
Total	$1,129,860	$1,159,316	$1,159,316

Investments — The fair value of investments in marketable securities held by the System as of June 30, 2010, is as follows (in thousands):

Bonds:	
U.S. government and sponsored agencies' securities	$ 259,277
Municipal bonds	48,021
U.S. corporate bonds	256,156
Total bonds	563,454
Stocks:	
U.S. corporate stocks	383,390
Non-exchange traded mutual funds:	
U.S.	659,850
Non-U.S.	449,146
Total stocks	1,492,386
Private equity investments	55,307
Total investments	$2,111,147

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2010:

Custodial Credit Risk Related to Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2010, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, State Street Bank and Trust and Bank of New York, except for securities lent.

Credit Risk — All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted-average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings.

The System's U.S. government and sponsored agencies' securities portfolio includes approximately $60,405,000 of U.S. Treasury notes and approximately $35,658,000 of mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government. The Moody's ratings of bonds as of June 30, 2010, excluding U.S. Treasury notes and mortgage-backed securities guaranteed by GNMA are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies' securities	$ 163,214
Aaa	U.S. corporate bonds	42,951
Aa2	U.S. corporate bonds	21,618
Aa3	U.S. corporate bonds	5,696
A1	U.S. corporate bonds	32,221
A2	U.S. corporate bonds	51,384
A3	U.S. corporate bonds	22,357
Baa1	U.S. corporate bonds	29,838
Baa2	U.S. corporate bonds	29,666
Baa3	U.S. corporate bonds	13,636
Ba3	U.S. corporate bonds	686
B3	U.S. corporate bonds	627
NR	U.S. corporate bonds	5,353
WR	U.S. corporate bonds	123
A1	Municipal bonds	15,119
A2	Municipal bonds	1,617
A3	Municipal bonds	3,082
Aa1	Municipal bonds	9,800
Aa2	Municipal bonds	9,339
Aa3	Municipal bonds	208
Aaa	Municipal bonds	6,734
Baa1	Municipal bonds	2,122
Total bond and notes		$ 467,391

Concentration of Credit Risk — No investment in marketable securities in any organization represents 5% or more of the System's net assets held in trust for pension benefits. As of June 30, 2010, the System owned shares in the State Street Global Advisors' S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund"), the Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund"), the Morgan Stanley Investment Management Active International Allocation Trust (the "Morgan Stanley Fund"), and the Invesco International Equity Trust Fund (the "Invesco Fund"), as follow:

Fund Name	Shares	Fair Value (In Thousands)
S&P 500 Fund	1,376,640	$ 290,921
Russell 3000 Fund	38,509,231	368,930
Morgan Stanley Fund	29,376,466	392,293
Invesco Fund	2,030,457	56,852
Total		$ 1,108,996

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor's 500 Index and the Russell 3000 Index, respectively. The objective of the Morgan Stanley Fund is to achieve capital appreciation through exposure to non U.S. markets. The objective of the Invesco Fund is to achieve capital appreciation by investing primarily in the securities of foreign companies.

As of June 30, 2010, the investments underlying the S&P 500 Fund, the Russell 3000 Fund, the Morgan Stanley Fund, and the Invesco Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	Morgan Stanley Fund	Invesco Fund
Information technology	18.70%	18.34%	6.94%	7.80%
Health care	12.13%	12.28%	8.23%	7.70%
Financials	16.29%	17.03%	19.56%	18.40%
Energy	10.57%	9.93%	8.80%	17.90%
Consumer staples	11.57%	9.77%	10.05%	4.50%
Industrials	10.40%	11.27%	13.36%	12.80%
Consumer discretionary	10.17%	10.96%	12.27%	9.50%
Utilities	3.74%	3.79%	4.37%	-
Telecommunication services	3.01%	2.78%	4.41%	6.80%
Materials	3.42%	3.85%	12.01%	5.70%
Other funds	-	-	-	8.90%

Interest Rate Risk — In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed-income securities.

The contractual maturities of investments in debt securities as of June 30, 2010, are as follow (in thousands):

			Investment Maturities (In Years)			
	Maturity Between	Fair Value	Less Than 1	Between 1-5	Between 5-10	More Than 10
U.S. government and sponsored agencies' securities	(2010–2051)	$274,307	$ 12,278	$ 80,053	$ 53,598	$128,378
Corporate bonds	(2010–2044)	241,126	4,070	93,705	81,842	61,509
Municipal bonds	(2012–2033)	48,021		5,424	8,945	33,652
Total bonds		$563,454	$ 16,348	$179,182	$144,385	$223,539

As of June 30, 2010, investment maturities as a percentage of total debt securities are as follows:

Maturity	Maximum Maturity
Less than one year	3 %
One to five years	32 %
More than five to ten years	26 %
More than ten years	39 %

Foreign Currency Risk — As of June 30, 2010, the System's investment in the Morgan Stanley Fund amounting to approximately $392 million represented 96.8% of the total commingled fund. Also, as of June 30, 2010, the System owned approximately $57 million in shares of the Invesco Fund, which represented 37.53 % of the total commingled fund.

As of June 30, 2010, these pooled trusts had an asset mix and country allocation as shown in the following tables:

Morgan Stanley:

Assets Mix	Percent
Cash and equivalents	4.10
Future contracts	21.76
Equity securities	74.14
Total	100.00

Country Allocation		Currency	Currency Code	Portfolio Percent
Australia		Dollars	AUD	3.82
Hong Kong		Dollars	HKD	3.08
Singapore		Dollars	SGD	1.54
Japan		Yen	JPY	21.34
	Asia x Pacific			29.78
Austria		Euro	EUR	0.45
Belgium		Euro	EUR	0.32
EMU		Euro	EUR	5.18
European Union Growth		Euro	EUR	1.34
European Union Quality		Euro	EUR	1.06
Finland		Euro	EUR	0.74
France		Euro	EUR	6.05
Germany		Euro	EUR	9.84
Italy		Euro	EUR	0.80
Netherlands		Euro	EUR	1.93
Spain		Euro	EUR	0.02
	Euro Europe			27.73
Denmark		Kroner	DKK	0.55
Norway		Kroner	NOK	0.86
Sweeden		Krona	SEK	1.93
Switzerland		Francs	CHF	6.30
United Kingdom		Pounds	GBP	17.75
	Non-Euro Europe			27.39
United States		Dollars	USD	0.01
	North America			0.01
Egypt		Egyptian Pound	EGP	0.23
	Africa			0.23
China		Yuan Renmimbi	CNY	1.47
India		Indian Rupee	INR	1.43
Indonesia		Rupiahs	IDR	0.80
Malaysia		Ringgits	MYR	0.57
South Korea		Won	KRW	0.49
Taiwan		New Dollars	TWD	1.00
	Asia Emerging			5.76
Poland		Zlotych	PLN	1.12
Russia		Ruble	RUB	1.26
Turkey		Turkish Lira	TRY	0.76
	Emerging Europe			3.14
Brazil		Real	BRL	0.91
	Latin America			0.91
Agriculture				0.96
	Thematic			0.96
Cash				4.10
Total				100.00

Invesco:

Assets Mix	Percent
Short-term investments	3.50
Foreign stock	96.50
Total	100.00

Country Allocation	Currency	Currency Code	Portfolio Percent
Canada	Dollars	CAD	8.27
Finland	Euro	EUR	1.06
France	Euro	EUR	8.32
Germany	Euro	EUR	4.54
Greece	Euro	EUR	0.69
Netherlands	Euro	EUR	3.04
Italy	Euro	EUR	1.68
Spain	Euro	EUR	5.71
Euro Europe			25.04
Norway	Kroner	NOK	0.83
Switzerland	Francs	CHF	8.65
United Kingdom	Pounds	GBP	14.63
Non-Euro Europe			24.11
Australia	Dollars	AUD	6.69
Hong Kong	Dollars	HKD	3.69
Japan	Yen	JPY	21.80
Pacific			32.18
Other Countries — Invesco Emerging Markets Equity Trust			6.90
Total			96.50

Investments in Limited Partnerships — The fair value of investments in limited partnerships as of June 30, 2010, amounted to approximately $55.3 million and is presented within private equity investments in the statement of plan net assets. The allocations of net gain and net loss to limited partners are based on certain percentages, as established in the limited partnership agreements.

The investments in limited partnerships were as follows:

- During fiscal year 2010, there were no additional contributions invested in Guayacán Fund of Funds, L.P., a Delaware limited partnership, created by Grupo Guayacán, Inc. as General Partner in which the System has a total commitment of $25 million. This fund has commitments to invest in fifteen (15) U.S. based and international venture partnerships and familiarizes the local pension funds with the private equity asset class without the risks inherent in geographically constrained investments.

- During fiscal year 2010, there were no additional contributions invested in Guayacán Fund of Funds II, L.P., a Delaware limited partnership created by Grupo Guayacán, Inc., as General Partner, in which the System has a total commitment of $25 million. This fund seeks to provide investors with a superior investment return and extensive diversification by investing in nineteen (19) private equity investment partnerships in the United States and Europe. This fund also invests a portion of its assets in a Puerto Rico based private equity investment entity.

- During fiscal year 2010, there were no additional contributions invested in Guayacán Private Equity Fund, L.P., a limited partnership organized pursuant to the laws of the State of Delaware and authorized to engage in business in the Commonwealth of Puerto Rico, in which the System has a total commitment of $5 million. The purpose of this partnership is to make equity investments in privately held companies as established in its charter.

- During fiscal year 2010, approximately $6,143,000 were invested in Guayacán Private Equity Fund II, L.P., a limited partnership organized in April 2007, pursuant to the laws of the State of Delaware, in which the System has a total commitment of $15 million. This partnership intends to seek out, invest in, and add value to companies, which will be based or operating in Puerto Rico or in companies whose products or services are targeted at the U.S. Hispanic market, with specific interest in those companies where Advent-Morro Equity Partners, Inc. (Advent-Morro) know-how and track record can be leveraged to enhance investment selection and post-investment value-add. Advent-Morro is a Puerto Rico based private equity firm. Guayacán Private Equity Fund II, LP will strive to have a balanced mix of portfolio investments primarily focusing on later stage opportunities such as: expansion financing, leveraged buyouts, management buyouts, and recapitalizations. This partnership may invest in de-novo companies that are being set up to enter established industries via market consolidation opportunities and/or internal growth.

- During fiscal year 2010, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico corporation organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act, which is managed by Advent-Morro in which the System has a total commitment of $800 thousand. This fund was created to make private equity investments in operating companies, which are based, are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

- During fiscal year 2010, approximately $9,903,000 were invested in GF Capital Private Equity Fund, L.P., a limited partnership organized under the laws of the State of Delaware, in which the System has a total commitment of $25 million. The purpose of this partnership is to make private equity investments in a variety of industries, including media and entertainment, branded consumer products, and software for media and telecommunications applications. This partnership's initiatives are focused on companies capitalized at between $20 to $400 million with a representation of buy-outs, growth capital, and recapitalizations.

- During fiscal year 2010, approximately $218,000 were invested in Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD, a limited partnership, organized by Chase as General Partner, in which the System has a total commitment of $20 million. This fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors, including buyouts, growth equity, venture capital, and other special situations through partnership and direct investments.

- The investment in Martineau Bay represents an investment in a hotel resort that filed under Chapter 11 of the United States Bankruptcy Code.

As of June 30, 2010, the date of commitment, total commitment, 2010 contributions, contributions to date at cost, and estimated value of investments in limited partnerships are as follows (in thousands):

	Date of Commitment	Total Commitment	FY 10 Contributions	Contributions to Date at Cost	Estimated Value
Grupo Guayacán, Inc.:					
Guayacán Fund of Funds, L.P.	Sept. 1996	$ 25,000	$	$ 23,820	$ 3,763
Guayacán Fund of Funds II, L.P.	Aug. 1999	25,000		23,681	8,883
Advent-Morro Equity Partners, Inc.:					
Guayacán Private Equity Fund, L.P.	Jan. 1997	5,000		4,645	4,364
Guayacán Private Equity Fund II, L.P.	Apr. 2007	15,000	6,143	14,744	13,197
Venture Capital Fund, Inc.	Nov. 1995	800		800	771
GF Capital Management & Advisors, LLC — GF Capital Private Equity Fund L.P.	Dec. 2006	25,000	9,903	14,949	14,480
Chase Capital Partners Private: Equity Fund of Funds Corporate Investors II, LTD.	Jul. 2000	20,000	218	18,955	9,849
Martineau Bay Resort, s. en c. (s.e.)	Jul. 1998	1,796		1,796	
Total alternative investments		$117,596	$ 16,264	$103,390	$ 55,307

Securities Lending Transactions — The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the System (the "loaned securities"). At June 30, 2010, the collateral received represented 102.29 % of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2010, consisted of the following:

Securities Lent	Fair Value
U.S. government and sponsored agencies' securities	$ 55,770
U.S. corporate stocks	39,447
U.S. corporate bonds	
Non-exchange traded mutual funds:	
U.S.	6,268
Non-U.S.	6,964
Total	$ 108,449

The underlying collateral for these securities had a fair value of approximately $110,931,000 as of June 30, 2010. The collateral received was invested in a short-term investment fund sponsored by the custodian bank and is included as part of cash and short-term investments in the accompanying 2010 statement of plan net assets. As of June 30, 2010, the distribution of the short-term investment fund by investment type is as follows:

Investment type	Percentage
Securities bought under agreements to resell	67.16%
Commercial paper	3.69%
Certificates of deposit	1.29%
Floating rate notes	12.48%
Time deposits	15.38%

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

6. LOANS AND INTEREST RECEIVABLE FROM PLAN MEMBERS

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The maximum amounts that may be granted to plan members for personal and cultural trip loans are $15,000 and $10,000, respectively.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2010, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$1,004,560
Mortgage	141,588
Cultural trips	62,029
Total loans to plan members	1,208,177
Accrued interest receivable	27,048
Total loans and interest receivable from plan members	1,235,225
Less allowance for adjustments and losses in realization	(9,070)
Total loans and interest receivable from plan members — net	$1,226,155

7. ACCOUNTS RECEIVABLE FROM EMPLOYERS

As of June 30, 2010, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$ 85,693
Special laws	99,937
Employer and employee contributions	78,521
Interest on late payments	22,700
Total accounts receivable from employers	286,851
Less allowance for doubtful accounts receivable	(13,712)
Accounts receivable from employers — net	$273,139

According to Act No. 447, each employer must pay on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the System.

The accounts receivable from employers related to special laws amounts to $99.9 million as of June 30, 2010. The System has entered into installment payment agreements with approximately 24% of these employers, while the remaining 76% of employers have not entered into installment payments with the System.

An allowance for doubtful accounts receivable of $4.6 million has been established for the amounts billed to these employers, which as of end of fiscal year have not replied to the System, either accepting or rejecting the amount billed to them, including a $3.4 million allowance on the amounts receivable from Medical Service Administration (ASEM, by its Spanish acronym). It is the System's management understanding that the remaining receivable balances do not need an allowance for doubtful accounts since those employers have consistently showed an acceptable payment history toward the System.

As of June 30, 2010, accounts receivable from employers include accounts receivable from ASEM of approximately $61 million, as follow (in thousands):

Employer and employee contributions	$ 39,581
Special laws	13,404
Early retirement program	5,160
Interest	15,452
Total accounts receivable from ASEM	73,597
Less allowance for doubtful accounts receivable	(12,465)
Accounts receivable from ASEM — net	$ 61,132

As of June 30, 2010, ASEM had not paid the System the corresponding employer contributions, early retirement program contributions, special laws contributions, and contributions withheld from employees since fiscal year 2005. The System made all the necessary efforts to collect the amounts owed by ASEM. These efforts included meetings with the Executive Officer of ASEM, the House of Representatives and the Senate of the Commonwealth, in order to establish a payment plan.

Subsequent to June 30, 2010, the Commonwealth's Legislature approved Law 2961 assigning funds to ASEM to settle its account receivable with the System as of June 30, 2010, excluding interests. On January 5, 2011, the System received an initial payment of $54 million.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 969	$ -	$ -	$ 969
Construction in progress	3,075			3,075
Total capital assets, not being depreciated	4,044			4,044
Capital assets, being depreciated:				
Building and improvements	7,631			7,631
Equipment	10,848	1,182	1,373	10,657
Total capital assets, being depreciated	18,479	1,182	1,373	18,288
Less accumulated depreciation for:				
Building and improvements	3,681	568		4,249
Equipment	9,671	807	1,359	9,119
Total accumulated depreciation	13,352	1,375	1,359	13,368
Total capital assets being depreciated — net	5,127	(193)	14	4,920
Total capital assets — net	$ 9,171	$ (193)	$ 14	$ 8,964

9. OTHER ASSETS

As of June 30, 2010, other assets consist of (in thousands):

Executed land	$ 4,699
Repossessed and foreclosed properties	2,525
Total	$ 7,224

Repossessed and foreclosed properties consist mainly of properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP in the United States of America, are not material. Management believes that the carrying value of these properties approximates fair value.

As of June 30, 2010, a total of 14,618 square meters of executed land remained under the possession of the System. According to an independent appraisal performed as of June 8, 2005, the estimated market value of this land was approximately $22.8 million.

10. BONDS PAYABLE

Senior Pension Funding Bonds — On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the "Fiscal Agent"), presented to the board of trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the "Series A Bonds"). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the "Series B Bonds"). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the "Series C Bonds").

As of June 30, 2010, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 52,198
Term Bonds, maturing in 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,595,968
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	160,833
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	115,791
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,092,724
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	2,507
Term Bonds, maturing in 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,507
Total bonds outstanding	2,989,199
Less bonds discount	(7,424)
Bonds payable — net	$2,981,775

Series A Bonds — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds (the "Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium. The Series A Bonds have the following debt service requirements (in thousands):

Years Ending June 30,	Principal	Interest
2011	$ -	$ 95,504
2012		95,504
2013		95,504
2014		95,504
2015		95,504
2016–2020		477,522
2021–2025	200,000	454,121
2026–2030	45,041	502,825
2031–2035	11,500	416,961
2036–2040	925,170	322,971
2041–2045	75,100	114,054
2046–2050		107,070
2051–2055	86,950	107,070
2056–2059	245,050	26,235
Principal outstanding and interest	1,588,811	3,006,349
Add (deduct) accreted value on bonds outstanding	7,157	(7,157)
Total Series A Bonds	$1,595,968	$ 2,999,192

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and $243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

The Series B Bonds have the following debt service requirements (in thousands):

Years Ending June 30,	Principal	Interest
2011	$ -	$ 52,428
2012		52,428
2013		52,428
2014		52,428
2015		52,428
2016–2020		262,141
2021–2025		262,141
2026–2030	141,071	262,141
2031–2035	218,564	232,866
2036–2040	270,000	183,023
2041–2045		140,498
2046–2050		140,498
2051–2055	96,250	140,498
2056–2059	332,750	46,472
Principal outstanding and interest	1,058,635	1,932,418
Add (deduct) accreted value on bonds outstanding	34,089	(34,089)
Total Series B Bonds	$ 1,092,724	$ 1,898,329

Series C Bonds — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

The Series C Bonds have the following debt service requirements (in thousands):

Years Ending June 30,	Principal	Interest
2011	$ -	$ 18,587
2012		18,587
2013		18,587
2014		18,587
2015		18,587
2016–2020		92,933
2021–2025		92,933
2026–2030		79,403
2031–2035	112,203	59,108
2036–2040	45,000	20,831
2041–2044	143,000	
Principal outstanding and interest	300,203	438,143
Add (deduct) accreted value on bonds outstanding	304	(304)
Total Series C Bonds	$ 300,507	$ 437,839
Total bonds	$2,989,199	$ 5,335,359

Activity of bonds payable during the year ended June 30, 2010, is as follows:

	June 30, 2009	Issuances	Accretion	Payments	June 30, 2010	Current Portion
Series A Bonds:						
Capital appreciation bonds	$ 49,105	$ -	$ 3,093	$ -	$ 52,198	$ -
Term bonds	1,543,770	-	-	-	1,543,770	-
Total Series A Bonds	1,592,875	-	3,093	-	1,595,968	-
Series B Bonds:						
Capital appreciation bonds	259,674	-	16,950	-	276,624	-
Term bonds	816,100	-	-	-	816,100	-
Total Series B Bonds	1,075,774	-	16,950	-	1,092,724	-
Series C Bonds:						
Capital appreciation bonds	2,349	-	158	-	2,507	-
Term bonds	298,000	-	-	-	298,000	-
Total Series C Bonds	300,349	-	158	-	300,507	-
Total bonds outstanding	2,968,998	-	20,201	-	2,989,199	-
Less bond discounts	(7,639)	-	215	-	(7,424)	-
Total bonds payable — net	$ 2,961,359	$ -	$ 20,416	$ -	$ 2,981,775	$ -

Pledge of Employer Contributions Pursuant to Security Agreement — The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the System of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

11. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

12. CONTINGENCIES

Loss Contingencies — The System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverage, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

Gain Contingency — The System, besides receiving contributions from participants and employers, also receives legislative appropriations from special laws to cover the increase in benefits to retirees. There have been several acts, which established an increase of 3% in pension annuities every three years for those members who meet the requirements outlined by these acts (Act No. 10 of May 21, 1992, Act No. 207 of August 13, 1995, Act No. 221 of August 9, 1998, Act No. 40 of June 13, 2001, and Act No. 157 of June 27, 2003). Also, there have been other laws that granted additional benefits, such as, summer and Christmas bonuses, and medical plan contributions, among others. Most of the funds needed to cover these benefits are budgeted by the Commonwealth through legislative appropriations. Nevertheless, the costs of pension benefits that increased from 1992 to 2004 were not received in full by the System from legislative appropriations.

On June 30, 2007, the System filed a reimbursement claim with the Office of Management and Budget of the Commonwealth to collect the remaining unfunded special laws appropriations. The final outcome of this claim cannot be presently determined; therefore, no receivable has been recorded in the System's financial statements.

13. SUBSEQUENT EVENT

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Economic incentives are available to all eligible employees and will consist of a lump-sum payment ranging from one-month to six-month salary. Additionally, all employees that choose to participate in this program are eligible to receive health plan coverage for up to 12 months in a health plan selected by the Administrator of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administrator"). Eligible employees may elect to participate in this program within 30 days after a date to be determined by the Administrator, no later than December 31, 2012.

* * * * * *

REQUIRED SUPPLEMENTARY SCHEDULES OF EMPLOYERS' CONTRIBUTIONS AND FUNDING PROGRESS

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2010
(In thousands)

Year Ended June 30,	Actual Employer Contributions	Annual Required Contributions	Percentage Contributed
2010	$ 534,275	$ 1,459,774	36.60%
2009	594,509	1,258,695	47.23%
2008 *	581,285	1,191,275	48.80%
2007 **	566,524	816,472	69.39%
2006 **	559,198	816,472	68.49%
2005	374,823	578,387	64.80%

* In the development of the Fiscal Year 2007-2008 Annual Required Contribution the System has adopted a level dollar amortization method with a 30-year period to reflect the closing of the defined benefit plan to new entrants under System 2000 (the Retirement Savings Account Program).

**Annual Required Contribution for the years ended June 30, 2007 and June 30, 2006 is restated to remove the offset of employer contributions on behalf of System 2000 members that was applied to the normal cost, and to include the Special Law Benefits. Actual Employer Contributions are restated to include receipts for Special Law pension benefits and early retirement incentives. These adjustments were made to allow for better comparability between the results of the later and the earlier valuations.

The above liabilities are for basic System benefits and selected System administered benefits.

See notes to supplementary schedules of employers' contributions and funding progress.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2010
(In thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Unit Credit (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$ 1,664,991	$ 19,501,761	$ 17,836,770	8.5 %	$ 3,818,332	467.1 %
June 30, 2009	1,842,143	18,943,586	17,101,443	9.7 %	4,292,552	398.4 %
June 30, 2008	2,607,086	ND	ND	ND	ND	ND
June 30, 2007	2,891,501	16,769,512	13,878,011	17.2 %	4,246,409	326.8 %
June 30, 2006	2,541,331	ND	ND	ND	ND	ND
June 30, 2005 *	2,327,871	13,969,000	11,641,129	16.7 %	4,125,866	282.1 %

* Accrued liability for June 30, 2005 is restated to include the Special Law benefits. This adjustment was made to allow for better comparability between the results of the current and the prior valuation.

The above liabilities are for basic System benefits and selected System administered benefits.

ND = Not determined

See notes to supplementary schedules of employers' contributions and funding progress.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

NOTES TO SUPPLEMENTARY SCHEDULES OF EMPLOYERS' CONTRIBUTIONS AND FUNDING PROGRESS AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

1. SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

The schedule of employers' contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

The System's schedule of employers' contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employees' contributions, pension benefits, and the System's administration costs.

The information was obtained from the last actuarial report as of June 30, 2010.

2. SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress provides information about the funded status of the System and the progress being made in accumulating sufficient assets to pay benefits when due. The information was obtained from the last actuarial report as of June 30, 2010.

* * * * * *

Exhibit 73

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Basic Financial Statements as of and for the
Year Ended June 30, 2011, Required Supplementary
Information as of and for the year ended June 30, 2011, and
Independent Auditors' Report

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

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Deloitte.

Deloitte & Touche LLP
Torre Chardon
350 Chardon Avenue, Ste. 700
San Juan, PR 00918
USA

Tel: +1 787 759 7171
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Employee's Retirement System of the Government of
the Commonwealth of Puerto Rico

We have audited the accompanying statement of plan net assets of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System"), a pension trust fund of the Commonwealth of Puerto Rico, as of June 30, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2011, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and supplemental schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and do not express an opinion on it.

As discussed in Note 1 to the basic financial statements, the System's unfunded actuarial accrued liability and funded ratio as of June 30, 2011, were $23,733.5 million and 6.8%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System's net assets will be exhausted by the fiscal year 2014, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System. Management's plans concerning this matter are also described in Note 1.

Deloitte & Touche LLP

April 27, 2012

Stamp No. E26136
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EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Introduction

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") administers retirement and other plan member benefits, such as personal, cultural and mortgages loans, occupational and non-occupational disability annuities and death benefits. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). Pension trust resources are only held in trust to pay retirement benefits to plan members. The System presents in the Management's Discussion and Analysis an overview of the annual basic financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2011. The financial performance of the System is discussed and analyzed within the context of the accompanying basic financial statements and disclosures.

Overview of the Basic Financial Statements

The Management's Discussion and Analysis introduces the System's basic financial statements. The basic financial statements include the following: (1) Statement of Plan Net Assets, (2) Statement of Changes in Plan Net Assets, and (3) Notes to the Basic Financial Statements. The System also includes additional information to supplement the basic financial statements.

Statement of Plan Net Assets and Statement of Changes in Plan Net Assets

Both these statements provide information about the overall status of the System. The System uses the accrual basis of accounting to prepare its basic financial statements.

The statement of plan net assets includes all of the System's assets and liabilities, with the difference reported as net assets held in trust for pension benefits. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The statement of changes in plan net assets reports the change in the System's net assets held in trust for pension benefits during the year. All current year additions and deductions are included regardless of when cash is received or paid.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for an understanding of the data provided in the statements of plan net assets and changes in plan net assets.

Required Supplementary Information

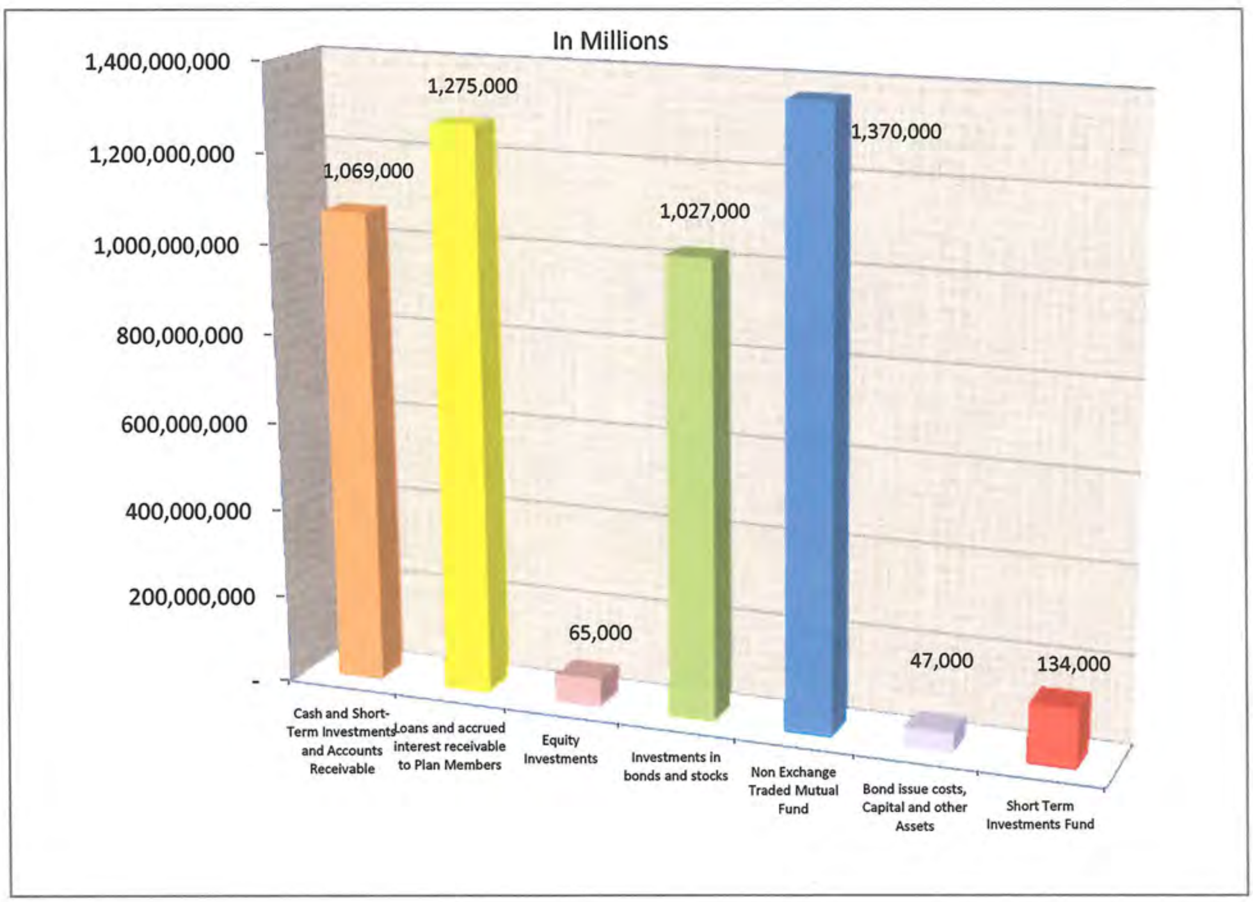
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2011 and 2010, amounted to $4,987 million and $4,843 million, respectively.

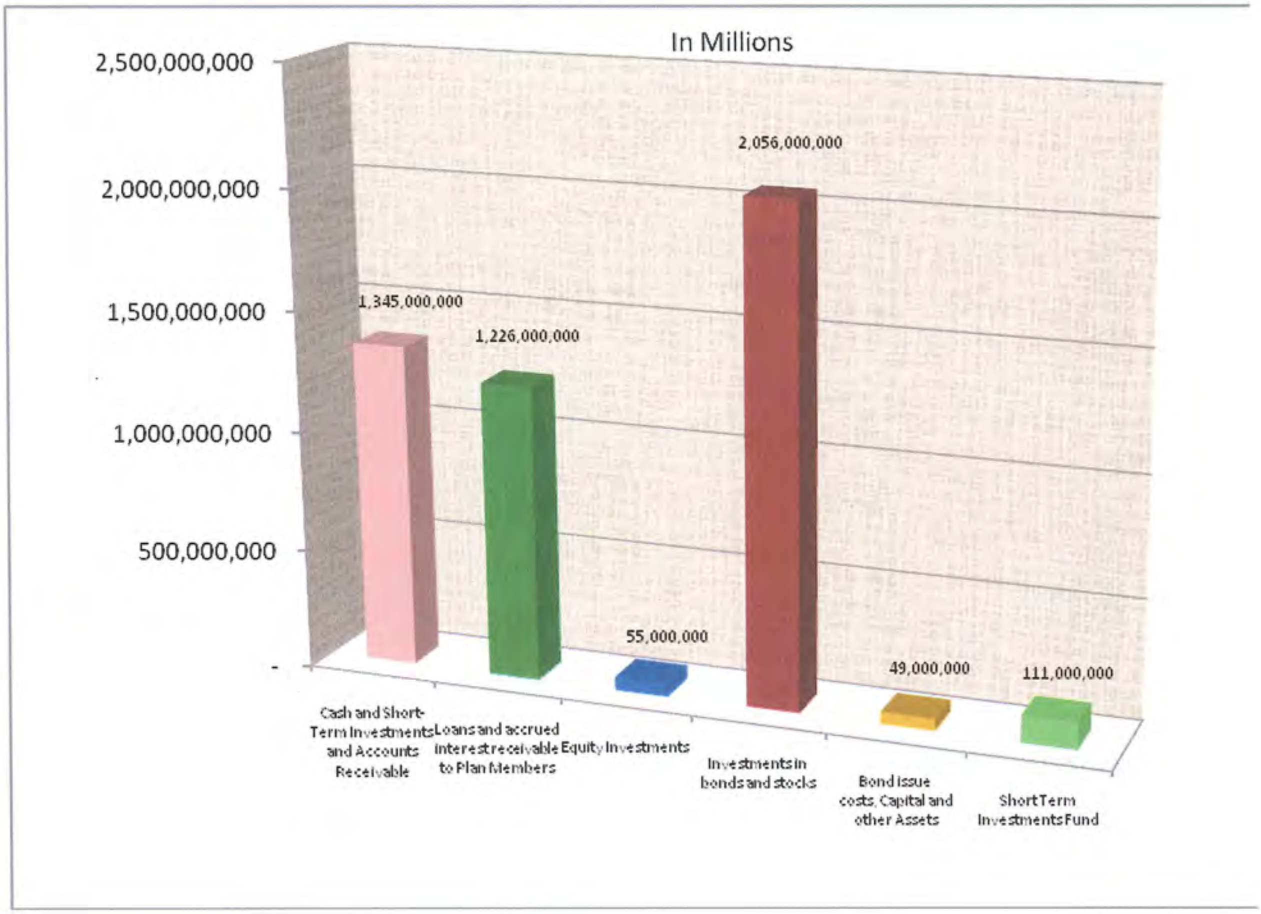
As of June 30, 2011, the System's total assets consist of the following:

- $1,069 million in cash and short-term investments, and accounts receivable, plus $134 million in collateral for securities lending
- $1,275 million in loans and accrued interest receivable from plan members
- $65 million in private equity investments
- $2,397 million of investments in bonds, stocks and non-exchange traded mutual funds
- $47 million in bond issue costs, capital and other assets



As of June 30, 2010, the System's total assets consist of the following:

- $1,345 million in cash and short-term investments, and accounts receivable, plus $111 million in collateral for securities lending
- $1,226 million in loans and accrued interest receivable from plan members
- $55 million in private equity investments
- $2,056 million of investments in bonds, stocks and non-exchange traded mutual funds
- $49 million in bond issue costs, capital and other assets



The following schedules present comparative summary financial statements of the System's plan net assets and changes in plan net assets for fiscal years 2011 and 2010:

Summary Comparative Statements of Plan Net Assets

	2011	2010	Total Dollar Change	Total Percentage Change
		(in thousands)		
Assets:				
Cash and short-term investments, and total accounts receivable	$ 1,202,081	$ 1,456,038	$ (253,957)	-17.4%
Investments	2,462,107	2,111,147	350,960	16.6%
Loans to plan members	1,275,381	1,226,155	49,226	4.0%
Capital assets and other	47,498	49,455	(1,957)	-4.0%
Total assets	4,987,067	4,842,795	144,272	3.0%
Liabilities:				
Accounts payable and accrued liabilities	12,923	12,250	673	5.5%
Book overdraft	62,843	22,933	39,910	174.0%
Payables for securities lending	134,319	110,931	23,388	21.1%
Bond interest payable	13,876	13,876		0.0%
Insurance reserve for loans to plan members and investment purchased	11,450	14,241	(2,791)	-19.6%
Bonds payable	3,003,482	2,981,775	21,707	0.7%
Other liabilities	24,363	21,798	2,565	11.8%
Total liabilities	3,263,256	3,177,804	85,452	2.7%
Net assets held in trust for pension benefits	$ 1,723,811	$ 1,664,991	$ 58,820	3.5%

Summary Comparative Statements of Changes in Plan Net Assets

	2011	2010	Total Dollar Change	Total Percentage Change
		(in thousands)		
Additions:				
Contributions:				
Employers	$ 511,707	$ 381,243	130,464	34.2%
Participating employees	322,008	345,265	(23,257)	-6.7%
Special laws	187,369	188,843	(1,474)	-0.8%
Early retirement	305	3,399	(3,094)	-91.0%
Investment income	645,720	398,610	247,110	62.0%
Other	49,257	31,783	17,474	55.0%
Total additions	1,716,366	1,349,143	367,223	27.2%
Deductions:				
Retirement and other benefits	1,329,227	1,249,776	79,451	6.4%
Refunds of contributions	91,195	45,146	46,049	102.0%
Interest on bonds payable	189,342	188,055	1,287	0.7%
General and administrative	34,583	33,063	1,520	4.6%
Other	13,199	10,255	2,944	28.7%
Total deductions	1,657,546	1,526,295	131,251	8.6%
Increase (decrease) in plan net assets	$ 58,820	$ (177,152)	$ 235,972	133.2%

- The System total assets exceeded total liabilities by $1,724 million (plan net assets) for the current fiscal year compared to the prior year, for which assets exceeded liabilities by $1,665 million.

- Based on the last actuarial valuation as of June 30, 2011, the System's funding ratio of the actuarial accrued liability is 6.80%.

- Loans to plan members amounted to $1,275 million as of June 30, 2011, compared to $1,226 million as of June 30, 2010.

The basic financial statements of the System for the fiscal year ended June 30, 2011, presents an increase in net assets of approximately $59 million, when compared to the prior fiscal year. This was mostly the result of an increase on investments of $351 million, principally due to a special contribution from the Commonwealth in the form of a capital appreciation bonds issued by Corporación para el Fondo de Interés Apremiante de Puerto Rico (the "COFINA Bonds") amounting to $162.5 million, and an increase in loans and interest receivable from plan members of $49 million. Such increases were partially offset by a decrease in cash and account receivable of $254 million and an increase of $87 million in cash overdraft owed to the Department of Treasury of the Commonwealth (Hacienda), and other liabilities.

During fiscal year 2011, the plan member and employer contributions, including early retirement contributions, decreased by approximately $58 million, from $730 million during fiscal 2010 to $672 million during fiscal year 2011. The System recognized a net appreciation in the fair value of investments of $472 million during 2011, which represents an increase of $256 million from the net appreciation of $216 million recognized in 2010.

Issuance of Bonds Payable

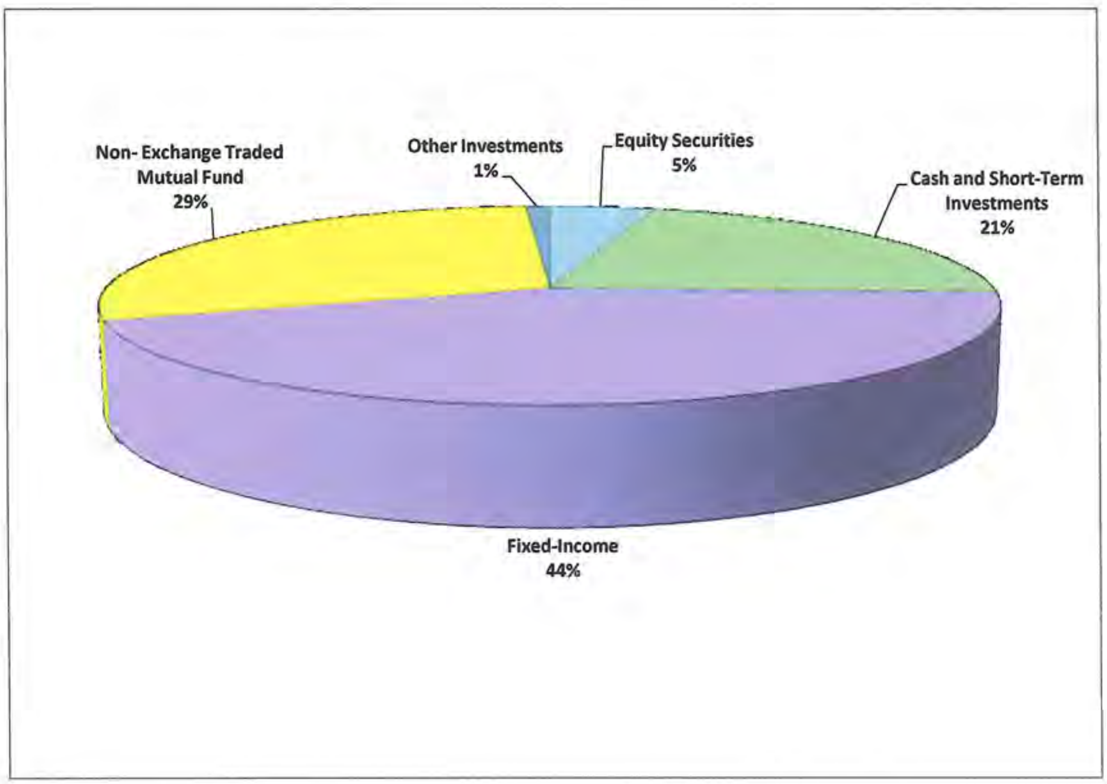
During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds currently available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial pension liability. As of June 30, 2011, bonds payable amounted to $3,003 million.

Financial Analysis of the System

Since December 2009, the System, with the assistance of an external investment consultant, has performed various assets and liabilities studies. The purpose of these studies is to properly align the current and future liabilities of the System with its net assets.

In the development of these studies, the external consultant considered the current investment program status; actual liquidity needs; future contributions streams; possible changes in demographics, contribution flows, and general assumptions used by the System. Nevertheless, the results of these studies are long term in nature.

The new asset allocation of the System's investment portfolio fulfills the System's needs, and since it is more adequately balanced, it provides protection in case of a market downturn. As of June 30, 2011, the asset allocation of the System's investment portfolio is 44% in fixed-income investments, including loans receivable, 29% in non-exchange traded mutual funds, 5% in equity securities, 21% in cash and short-term investments, and 1% in other investments as shown in the following chart:



Other Investments and Transactions

As of June 30, 2011 and 2010, the System held approximately $1,275 million and $1,226 million, respectively, in loans and interest receivable from plan members, which represents 36% and 37 %, respectively of the total investment portfolio. As of June 30, 2011, loans and interest receivable from plan members consist of $148 million in mortgage loans, $1,033 million in personal loans, $73 million in cultural trips loans, and $31 million in accrued interest receivable, less $10 million in allowance for adjustment and losses in realization. As of June 30, 2010, loans and interest receivable from plan members consist of $141 million in mortgage loans, $1,005 million in personal loans, $62 million in cultural trips loans, and $27 million in accrued interest receivable, less $9 million in allowance for adjustment and losses in realization. As of June 30, 2011 and 2010, the fair value of the System's investment in limited partnerships amounted to $65.5 and $55.3 million, respectively, which represents approximately 2% and 1% of the investment portfolio, as of June 30, 2011 and 2010.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For financial statements purposes, the amount of securities that was involved in securities lending transactions as of June 30, 2011, has been presented, along with the required disclosures, in accordance with current government accounting pronouncements. For the years ended June 30, 2011 and 2010, net income from the securities lending activity amounted to approximately $185,000 and $716,000, respectively.

Funding Status

The System was created by Act 447 of May 15, 1951, and since its inception it lacked proper planning and the levels of contributions were relatively low and still remain low in comparison to the level of benefits. In addition, all retirement systems in place before 1951 were merged into the System, which then had to absorb all of their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced, however, without the appropriate increase in contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified to decrease the benefits and to postpone the retirement age from 55 to 65, in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits will require actuarial studies and must state the financing source.

Ten years later, the continuing increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the System benefit structure was further amended to provide for a cash balance program, similar to a cash balance plan, to be funded only by employees' contributions. The new program is known as the Retirement Savings Account Program ("System 2000"). Under System 2000, the employers' contributions continue at the same level as the original defined benefit structure, but are being used to fund the accrued actuarial liability of the original defined benefit structure that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act No. 296 was enacted to amend the dispositions of Act No. 305 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the

balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act No. 296 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the System consists of three different benefit structures, which are administrated according to their specifications in the Act. For all plan members, excluding System 2000 program participants, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee's contributions range from 8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions for the year ended June 30, 2011, were 9.275% of the employee salary.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds currently available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds and used these investments and the earnings thereon to provide such pension benefits to beneficiaries. On January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Nevertheless, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in the employers or employees contributions to cope with those factors and, therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events, plus the continuous increase in the actuarial liability have had a negative effect over the System's unfunded actuarial accrued liability. Based on the last actuarial valuation at June 30, 2011, the System's funded ratio is 6.80%, the actuarial obligation is $25,457.4 million, total actuarial value of plan assets amounted to $1,723.8 million, and the unfunded actuarial accrued liability amounted to $23,733.5 million.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. In order to improve the Systems funding ratio, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, include 1) improving the collection of late contributions by receiving such contributions directly from the Centro Recaudaciones Ingresos Municipales (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from Hacienda in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of the $162.5 million COFINA Bonds.

Increase in Benefits for Retirees Established for 2009, 2008, and 2007

For the years 2009, 2008, and 2007, the Government of Puerto Rico granted several benefits to the System's retirees to help them cope with the increase in the cost of living, which consisted of:

- Increase in the minimum monthly pension benefit from $300 to $400, effective July 1, 2007.
- Increases of 3% in all pensions effective on July 1, 2007, but computed retroactively to January 1, 2007.
- Increase from $500 to $550 and to $600 in the Christmas Bonus for the retiree, effective in December 2006 and 2007, respectively.
- Increases of 3% in all pensions lower than $1,250 effective on July 1, 2008. This increase could not exceed the amount limit of $1,250.

Following the requirements established by Act 1 of February 16, 1990, these benefits are financed through legislative appropriations from the Commonwealth with respect to Central Government retirees and financed by the municipalities and public corporations with respect to their corresponding retirees. There were no additional benefits granted for fiscal years 2011 and 2010.

Capital Assets

The System's investment in capital assets as of June 30, 2011 and 2010, amounted to approximately $9 million for each year, net of accumulated depreciation. Capital assets include land, building and improvements, construction in progress, and equipment. Building and improvements consist of the facilities in which the System has its operations.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

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EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2011
(In thousands)

ASSETS:	
Cash and short-term investments:	
Deposits at commercial banks	$ 220,852
Deposits with Government Development Bank for Puerto Rico:	
Unrestricted	51,396
Restricted	411,946
Deposits with Bank of New York	170,653
Collateral for securities lending	134,319
Total cash and short-term investments	989,166
Investments:	
Bonds and notes	814,408
Stocks	212,040
Non-exchange traded mutual funds	1,370,202
Private equity investments	65,457
Total investments	2,462,107
Total cash and investments	3,451,273
Loans and interest receivable from plan members — net of allowance for adjustments and losses in realization	1,275,381
Accounts receivable:	
Employers — net	184,152
Commonwealth of Puerto Rico	6,147
Due from the Commonwealth of Puerto Rico Judiciary Retirement System	881
Investments sold	9,546
Accrued investment income	7,594
Other	4,595
Total accounts receivable	212,915
Capital assets — net	8,951
Bond issue costs	32,172
Other assets	6,375
Total assets	4,987,067

(Continued)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2011
(In thousands)

LIABILITIES:	
Accounts payable and accrued liabilities, including book overdraft of $62,843	$ 75,766
Payables for securities lending	134,319
Investments purchased	1,854
Bond interest payable	13,876
Funds of mortgage loans and guarantee insurance reserve for loans to plan members	9,596
Bonds payable	3,003,482
Other liabilities	24,363
Total liabilities	3,263,256
CONTINGENCIES (Note 13)	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of Funding Progress is presented on page 42)	$ 1,723,811

See notes to financial statements.

(Concluded)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(In thousands)

ADDITIONS:	
Contributions:	
Employers	$ 511,707
Participating employees	322,008
Early retirement	305
Special laws	187,369
Total contributions	1,021,389
Investment income:	
Net appreciation of investments	472,076
Dividend income	7,344
Interest income	172,783
Total investment income	652,203
Less investment expense	6,483
Net investment income	645,720
Other income	49,257
Total additions	1,716,366
DEDUCTIONS:	
Annuities	1,133,926
Benefits under special laws	187,369
Death benefits	7,932
Refunds of contributions:	
Employers	992
Participating employees	90,203
Interest on bonds payable	189,342
General and administrative	34,583
Other expenses	13,199
Total deductions	1,657,546
NET INCREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	58,820
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	1,664,991
End of year	$ 1,723,811

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The System began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the System is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2011, the System has an unfunded actuarial accrued liability of approximately $23,733.5 million, representing an 6.80% funding ratio, using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not taken now to deal with this situation, the System assets will be exhausted by the fiscal year 2014. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the System are government agencies obligated to make actuarial contributions to fund the System.

To address to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission") to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long term solutions to improve the financial condition of the System. The Commonwealth is committed to finding a long-term solution to the funding situation of the System.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of the System. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, the System and the Commonwealth, with the assistance of the System's external consulting actuaries, concluded that annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the System's investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Other measures taken to improve the funding ratio of the System, include 1) improving the collection of late contributions by receiving such contributions directly from the Centro Recaudaciones Ingresos Municipales (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by Corporación para el Fondo de Interés Apremiante de Puerto Rico (the "COFINA Bonds") amounting to $162.5 million (see Note 11).

Act No. 70 establishes a program that provides benefits for early retirement or economic incentives for voluntary employment terminations to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the "General Fund") and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Law 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The System will responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make a contribution equal to 9.275% (17.55% for public corporations) of final salary of the plan member to the System.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

Basis of Presentation — The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended by GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*. Participating employees and employer's contributions are recognized as additions in the period in which the employee services are rendered. Annuities, benefits, and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions to net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

Cash and Short-Term Investments — Cash and short-term investments consist of overnight deposits with the custodian bank, securities lending collateral, money market funds, and certificates of deposits in Government Development Bank for Puerto Rico (GDB) (a component unit of the Commonwealth) and commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders administered by the mortgage servicers in the servicing of loans (escrow accounts), expired checks not claimed by the plan members, restricted for repayments, and proceeds from the issuance of the Series A and B Bonds restricted for investment purchases.

Investments — Investments are carried at fair value. The fair value of investments is based on quoted prices, if available. The System has investments valued at approximately $65,457,000 or 1.3% of total assets as of June 30, 2011, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers. Such investments include private equity investments and non-exchange traded mutual funds.

Securities transactions are accounted for on the trade date. Realized gains and losses on securities are determined by the average cost method and are included in the statement of changes in plan net assets.

Loans to Plan Members — Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance. The maximum amount of loans to plan members for mortgage, personal, and cultural trip loans were $100,000, $15,000, and $10,000, respectively, for the year ended June 30, 2011.

The System services mortgage loans with aggregate principal balances of approximately $6.2 million at June 30, 2011, related to certain mortgage loans sold to the Federal National Mortgage Association (FNMA) for a fee of 25%. The income for 2011 amounted to $5,664 and is recognized as interest income in the accompanying statement of changes in plan net assets.

During 2011, the System repurchased approximately $24,089 in mortgage loans that were sold during fiscal year 1998 to FNMA. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

Insurance Premiums, Claims, and Reserve for Life Insurance on Loans to Plan Members — Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

Capital Assets — Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets, which have an initial individual cost of $500 or more at the date of acquisition and have a useful life equal to or in excess of four years. Capital assets are recorded at historical cost or their estimated historical cost if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

The System evaluates capital assets for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether the impairment of an asset has occurred. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System should be measured using the method that best reflects the diminished service utility of the capital asset.

The impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that use the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. During the year ended June 30, 2011, management assessed and determined that no impairment adjustment was deemed necessary.

Recently Issued Accounting Pronouncements — The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2011:

a. GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is effective for financial statements for periods beginning after June 15, 2011.

b. GASB Statemen*t No. 60, Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for financial statements for periods beginning after December 15, 2011.

c. *GASB Statement No. 61, The Financial Reporting Entity: Omnibus — an amendment of GASB* Statements No. 14 and No. 34, which is effective for financial statements for periods beginning after June 15, 2012.

d. GASB Statement No. 62, C*odification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after December 15, 2011.

e. GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for financial statements for periods beginning after December 15, 2011.

f. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision-an amendment of GASB Statement No. 53*, which is effective for financial statements for periods beginning after June 15, 2011.

g. GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012.

h. GASB Statement No. 66, *Technical Corrections—2012*, which is effective for financial statements for periods beginning after December 15, 2012.

The impact of these pronouncements in the System's financial statements has not yet been determined.

2. PLAN DESCRIPTION

The System consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The System is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the System) are covered by the System. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the System. The System is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

At June 30, 2011, membership of the System consists of the following:

Retirees and beneficiaries currently receiving benefits	113,191
Current participating employees — defined benefit	80,403
Cash Balance System 2000 participating employees	55,569
Total membership	249,163

Plan members, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	**Other Employees**
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the System are left within the System until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the System, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the System on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the System to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.), such as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the System to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the System, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the System's retirees. As of June 30, 2011, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico National Parks Company. The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipality's employees. The Puerto Rico National Parks Company has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the System in three installments on each July 31 starting on 2009 through 2012. The Municipality of San Juan will reimburse the annuities and other benefits paid by the System during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (REA) implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. REA has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the System on or after January 1, 2000.

Employees participating in the System as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the System, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the System's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary for 2011) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2011, System 2000's membership consisted of 55,569 current participating employees.

3. FUNDING POLICY

The contribution requirement to the System is established by law and is not actuarially determined. Required employers' contributions through June 30, 2011, consisted of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the System's pension benefit obligations and general and administrative deductions.

The System, besides the contributions received from plan members and employers, also receives legislative appropriations for special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Actuarial Information — Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2011, using the projected unit credit cost method, with straight proration based on service to decrement. The significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 6.40%, (b) assumed compound rate of wage increases of 3% per year, (c) assumed inflation rate of 2.5%, (d) assumed cost of living adjustment of 0.99% annual COLA to approximate 3% triennial increases, and (e) assumed mortality as follows:

Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA.

Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the plan's experience from 2003-2007.

Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.

During the year ended June 30, 2011, the System decreased the assumed rate of return from 7.5% in 2010 to 6.4% in 2011, which resulted in an increase of approximately $2.43 billion in the actuarial accrued liability.

As of June 30, 2011, the actuarial accrued liability and the unfunded actuarial accrued liability were approximately $25,457.4 million and $ 23,733.5 million, respectively.

The Legislature of the Commonwealth enacted Act No. 1 of February 16, 1990, to improve the solvency of the System for the next 50 years. Among other provisions, the legislation increased the level of contributions to the System, reduced the benefits for new participating employees, and increased the retirement age from 55 to 65 years. Further, through Act 305 of September 24, 1999, the original defined benefit structure was no longer available to new employees and System 2000 was created (as described in Note 2) for all plan members who started working for the Commonwealth effective January 1, 2000, or after.

4. FUNDED STATUS AND FUNDING PROGRESS

The System's funded status as of June 30, 2011, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
June 30, 2011	$ 1,723.8	$ 25,457.4	$ 23,733.5	6.8%	$ 3,666.4	647.3%

The schedule of funding progress (see page 42), presented as required supplementary information (RSI) following the notes to the financial statements, presents multilayer trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the date of the latest actuarial valuation is as follows:

Valuation date	June 30, 2011
Actuarial cost method	Projected unit credit cost method, with straight proration based on service to decrement
Amortization method	30 years closed, level dollar
Remaining amortization period	26 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	6.4%
Projected salary increases	3.0% (no increase in 2010–11)
Projected payroll growth	2.5%
Inflation	2.5%
Mortality rate	Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA. Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the plan's experience from 2003-2007. Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.
Cost of living adjustment	0.99% annual COLA to approximate 3% triennial increases. (Cola is only applied to members covered under Act 127 who become disabled or die in the line of duty).

5. CASH AND INVESTMENTS

Custodial Credit Risk Related to Deposits — Custodial credit risk is the risk that, in an event of a bank failure, the System's deposits might not be recovered. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, Bank of New York, and with other non Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

As of June 30, 2011, depository bank balances of approximately $993 million were uninsured and uncollateralized as follows (in thousands):

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Deposits at commercial banks	$ 220,852	$ 220,852	$ 220,852
Deposits with GDB	463,342	466,900	466,900
Deposits with Bank of New York	170,653	170,653	170,653
Collateral for securities lending	134,319	134,319	134,319
Total	$ 989,166	$ 992,724	$ 992,724

Investments — The fair value of investments in marketable securities held by the System as of June 30, 2011, is as follows (in thousands):

Bonds and notes:	
U.S. government and sponsored agencies' securities	$ 210,116
Municipal bonds	32,200
COFINA Bonds	162,500
U.S. corporate bonds	409,592
Total bonds and notes	814,408
U.S. corporate stocks	212,040
Non-exchange traded mutual funds:	
Equity and other funds:	
U.S.	715,906
Non-U.S.	342,790
Fixed income funds:	
U.S.	204,223
Non-U.S.	107,283
Total non-exchange traded mutual funds	1,370,202
Private equity investments	65,457
Total investments	$2,462,107

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2011:

Custodial Credit Risk Related to Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2011, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, State Street Bank and Trust and Bank of New York, except for securities lent.

Credit Risk — All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted-average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings.

The System's U.S. government and sponsored agencies' securities portfolio includes approximately $48,262,000 of U.S. Treasury notes and approximately $23,053,000 of mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government. The Moody's ratings of bonds and notes as of June 30, 2011, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$ 209,023
A3	U.S. government and sponsored agencies securities	1,093
Aaa	U.S. corporate bonds	47,666
Aa2	U.S. corporate bonds	17,077
Aa3	U.S. corporate bonds	33,628
A1	U.S. corporate bonds	39,134
A2	U.S. corporate bonds	71,185
A3	U.S. corporate bonds	50,430
Baa1	U.S. corporate bonds	31,125
Baa2	U.S. corporate bonds	66,677
Baa3	U.S. corporate bonds	28,246
Ba3	U.S. corporate bonds	8,097
B2	U.S. corporate bonds	428
B3	U.S. corporate bonds	537
NR	U.S. corporate bonds	1,180
Ba1	U.S. corporate bonds	10,728
BA2	U.S. corporate bonds	3,454
A1	Municipal bonds (COFINA Bonds)	162,500
A1	Municipal bonds	10,643
A2	Municipal bonds	1,622
A3	Municipal bonds	3,106
Aa1	Municipal bonds	2,053
Aa2	Municipal bonds	9,998
Aa3	Municipal bonds	216
Aaa	Municipal bonds	2,433
Baa1	Municipal bonds	2,129
Total		$ 814,408

In addition, the System invests in shares of the State Street Global Advisor Intermediate U.S. Credit Index Non-Lending Fund (the "SSgA Intermediate Fund"). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays Capital U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their net asset value (NAV) and have no redemption restrictions. The System's investment in the SSgA Intermediate Fund is included as part of non-exchange traded mutual funds.

Moody's credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2011, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa/Aa1	Government sponsored	$ 37,256
Aa1/Aa2	Government sponsored	8,193
A2/A3	Government sponsored	5,887
A3/Baa1	Government sponsored	12,616
Aa3/A1	Corporate bonds	9,532
Aa2/Aa3	Corporate bonds	810
A1/A2	Corporate bonds	83,078
A2/A3	Corporate bonds	71,086
A3	Corporate bonds	156
A3/Baa1	Corporate bonds	56,819
Baa1/Baa2	Corporate bonds	18,317
Baa2/Baa3	Corporate bonds	7,756
Total		$ 311,506

Concentration of Credit Risk — No investment in marketable securities in any organization represents 5% or more of the System's net assets held in trust for pension benefits. As of June 30, 2011, the System owned shares in the State Street Global Advisors' S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund"), the Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund"), the Morgan Stanley Investment Management Active International Allocation Trust (the "Morgan Stanley Fund"), the Invesco International Equity Trust Fund (the "Invesco Fund"), and the SSgA Intermediate Fund, as follows (in thousands):

Fund Name	Shares	Fair Value
S&P 500 Fund	882,186	$ 227,186
Russell 3000 Fund	38,509,231	488,720
Morgan Stanley Fund	15,311,851	268,983
SSGA Intermediate Fund	309,221,225	311,506
Invesco Fund	2,030,457	73,807
Total		$1,370,202

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor's 500 Index and the Russell 3000 Index, respectively. The objective of the Morgan Stanley Fund is to achieve capital appreciation through exposure to non U.S. markets. The objective of the Invesco Fund is to achieve capital appreciation by investing primarily in the securities of foreign companies. Shares of these funds can be redeemed on a daily basis at NAV and have no redemption restrictions. The System's investment in these funds is included as part of non-exchange traded mutual funds.

As of June 30, 2011, the investments underlying the S&P 500 Fund, the Russell 3000 Fund, the Morgan Stanley Fund, the Invesco Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	Morgan Stanley Fund	Invesco Fund	SSgA Intermediate Fund
Information technology	18%	18%	7%	4%	4%
Health care	12%	12%	7%	7%	0%
Financials	15%	16%	20%	21%	33%
Energy	13%	12%	9%	12%	5%
Consumer staples	11%	9%	9%	10%	10%
Industrials	11%	12%	15%	9%	6%
Consumer discretionary	11%	12%	11%	10%	4%
Utilities	3%	4%	2%	5%	7%
Telecommunication services	3%	3%	5%	10%	7%
Materials	4%	5%	14%	12%	4%
Government sponsored					20%
Totals	100%	100%	100%	100%	100%

Interest Rate Risk — In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed-income securities.

The contractual maturities of investments in debt securities as of June 30, 2011, are as follow (in thousands):

			Investment Maturities (In Years)			
	Maturity Between	Fair Value	Less Than 1	Between 1-5	Between 5-10	More Than 10
U.S. government and sponsored agencies' securities	(2011–2051)	$ 210,116	$ 18,509	$ 64,028	$ 48,125	$ 79,454
U.S. Corporate bonds	(2011–2044)	409,592	36,402	158,220	159,835	55,135
Municipal bonds	(2012–2033)	32,200	4,288	6,929	10,867	10,116
COFINA Bond		162,500				162,500
Total bonds		$ 814,408	$ 59,199	$ 229,177	$ 218,827	$ 307,205

As of June 30, 2011, investment maturities as a percentage of total debt securities are as follows:

Maturity	Maximum Maturity
Less than one year	7%
One to five years	28%
More than five to ten years	27%
More than ten years	38%
Total	100%

Foreign Currency Risk — As of June 30, 2011, the System's investment in the Morgan Stanley Fund amounting to approximately $269 million represented 95.7% of the total commingled fund. Also, as of June 30, 2011, the System owned approximately $74 million in shares of the Invesco Fund, which represented 29.81% of the total commingled fund, and $312 million in shares of the State Street Intermediate Index Bond Fund, which represents 10.98% of the total comingled fund..As of June 30, 2011, the Morgan Stanley Fund had an asset mix and country allocation as follows:

Morgan Stanley:

Assets Mix	**Percent**
Cash and equivalents	2.26
Future contracts	7.21
Equity securities	90.53
Total	100.00

Country Allocation		**Currency**	**Currency Code**	**Portfolio Percent**
Australia		Dollars	AUD	4.79
Hong Kong		Dollars	HKD	1.50
Singapore		Dollars	SGD	2.20
Japan		Yen	JPY	13.93
Japan Global Survivor		Yen	JPY	4.69
	Asia/Pacific			27.11
Austria		Euro	EUR	0.64
Belgium		Euro	EUR	0.58
EMU		Euro	EUR	5.20
European Union Growth		Euro	EUR	3.64
European Union Quality		Euro	EUR	0.00
Finland		Euro	EUR	1.23
France		Euro	EUR	6.06
Germany		Euro	EUR	11.19
Italy		Euro	EUR	0.02
Netherlands		Euro	EUR	2.63
Spain		Euro	EUR	1.14
	Euro Europe			32.33
Denmark		Kroner	DKK	1.11
Norway		Kroner	NOK	1.98
Sweden		Krona	SEK	3.56
Switzerland		Francs	CHF	7.22
United Kingdom		Pounds	GBP	16.38
	Non-Euro Europe			30.25
United States		Dollars	USD	0.00
	North America			0.00
Egypt		Egyptian Pound	EGP	0.00
	Africa			.
China		Yuan Renmimbi	CNY	0.55
India		Indian Rupee	INR	0.00
Indonesia		Rupiahs	IDR	0.41
Malaysia		Ringgits	MYR	0.00
Philipines		Peso	PHP	0.88
South Korea		Won	KRW	1.37
Thailand		New Dollars	TWD	0.82
	Asia Emerging			**4.03**
Poland		Zlotych	PLN	0.57
Russia		Ruble	RUB	0.94
Turkey		Turkish Lira	TRY	0.00
	Europe Emerging			**1.51**
Brazil		Real	BRL	0.76
Mexico		Peso	MXN	0.85
	Latin America			1.61
	Emerging			**7.16**
Agriculture				0.90
	Thematic			**0.90**
Cash				2.26
Total				100.00

In addition, the composition of the underlying investments in the Invesco Fund and the SSgA Intermediate Fund by country, as of June 30, 2011, was as follows:

Invesco Fund

	Currency	Percentage
Europe:		
Denmark	Danish Krone	1%
Finland	Euro	1%
France	Euro	9%
Germany	Euro	6%
Italy	Euro	3%
Netherlands	Euro	2%
Norway	Norwegian Krone	3%
Spain	Euro	6%
Switzerland	Swiss Franc	8%
United Kingdom	Sterling Pound	14%
Total Europe		53%
Pacific Basin:		
Australia	Australian Dollar	7%
Hong Kong	Hong Kong Dollar	3%
Japan	Japanese Yen	25%
Total Pacific Basin		35%
Emerging markets	Various	6%
Canada	Canada Dollar	6%
Total investments		100%

SSgA Intermediate Fund

	Currency	Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	2 %
United Kingdom	Sterling Pound	4 %
Total Europe		10 %
Pacific Basin:		
Australia	Australian Dollar	1 %
Japan	Japanese Yen	1 %
Total Pacific Basin		2 %
Americas:		
Canada	Canada Dollar	5 %
Mexico	Mexican Peso	1 %
Brazil	Brazilian Real	1 %
U.S.	U.S. Dollar	66 %
Total Americas		73 %
Supranational	Various	7 %
Other	Various	8 %
Total investments		100 %

Investments in Limited Partnerships — The fair value of investments in limited partnerships at June 30, 2011, amounted to approximately $65 million, and is presented within investments in the basic statement of plan net assets. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements.

As of June 30, 2011, the date of commitment, total commitment, 2011 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of Commitment	Total Commitment	2011 Contributions	Contributions to Date at Cost	Estimated Fair Value
Grupo Guayacán, Inc.					
Guayacán Fund of Funds, LP	Sept. 1996	$25,000	-	$23,820	$4,244
Guayacán Fund of Funds II, LP	Aug. 1999	25,000	-	23,681	9,568
Advent-Morro Equity Partner, Inc.					
Guayacán Private Equity Fund, LP	Jan. 1997	5,000	-	4,645	3,450
Guayacán Private Equity Fund II, LP	Apr. 2007	15,000	2,500	17,244	17,504
Venture Capital Fund, Inc.	Nov. 1995	800	-	800	837
GF Capital Mnagement & Advisors, LLC					
GF Capital Private Equity Fund LP	Dec, 2006	25,000	5,350	20,299	22,397
Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD	Jul. 2000	20,000	-	18,955	7,457
Martineau Bay Resort, s. en c. (s.e.)	Jul. 1998	1,796	-	1,796	-
Total		$ 117,596	$ 7,850	$ 111,240	$ 65,457

Securities Lending Transactions — The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the System (the "loaned securities"). At June 30, 2011, the collateral received represented 102% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2011, consisted of the following:

Securities Lent	Fair Value
U.S. government and sponsored agencies' securities	$ 17,255
U.S. corporate stocks	43,869
Non-exchange traded mutual funds:	
U.S.	65,551
Non-U.S.	4,831
Total	$ 131,506

The underlying collateral for these securities had a fair value of approximately $134,319,000 as of June 30, 2011. The collateral received was invested in a short-term investment fund sponsored by the custodian bank and is included as part of cash and short-term investments in the accompanying statement of plan net assets. As of June 30, 2011, the distribution of the short-term investment fund by investment type is as follows:

Investment type	Percentage
Securities bought under agreements to resell	13.37 %
Commercial paper	20.60 %
Certificates of deposit	17.78 %
Floating rate notes	31.39 %
Interest bearing	0.19 %
Time deposits	16.67 %
Total	100.00 %

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

6. LOANS AND INTEREST RECEIVABLE FROM PLAN MEMBERS

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The maximum amount of loans to plan members for personal and cultural trip loans were $15,000 and $10,000, respectively, for the year ended June 30, 2011.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2011, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$1,033,005
Mortgage	148,156
Cultural trips	73,029
Total loans to plan members	1,254,190
Accrued interest receivable	30,730
Total loans and interest receivable from plan members	1,284,920
Less allowance for adjustments and losses in realization	(9,539)
Total loans and interest receivable from plan members — net	$1,275,381

7. ACCOUNTS RECEIVABLE FROM EMPLOYERS

As of June 30, 2011, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$ 41,884
Special laws	63,526
Employer and employee contributions	55,412
Interest on late payments	24,241
Total accounts receivable from employers	185,063
Less allowance for doubtful accounts receivable	(911)
Accounts receivable from employers — net	$ 184,152

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the System.

The accounts receivable from employers related to special laws amounts to $63.5 million as of June 30, 2011. The System has entered into installment payment agreements with approximately 91% of these employers, while the remaining 9% of employers have not entered into installment payments with the System.

As of June 30, 2011, accounts receivable from employers include accounts receivable from Medical Service Administration (ASEM by its Spanish acronym) of approximately $41 million, as follow (in thousands):

Employer and employee contributions	$ 21,568
Interest	18,997
Total accounts receivable from ASEM	$ 40,565

During the fiscal year 2011, the Commonwealth's Legislature approved Law 2961 assigning funds to ASEM to settle its account receivable with the System as of June 30, 2010. On January 5, 2011, the System received an initial payment of $54 million..In addition, on August 2011, the System received an interest payment of $14 million. ASEM and the System has established a 3 year payment plan for the remaining outstanding balance of employer and employee contributions owed.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 969	$ -	$	$ 969
Construction in progress	3,075		1	3,074
Total capital assets, not being depreciated	4,044		1	4,043
Capital assets, being depreciated:				
Building and improvements	7,631			7,631
Equipment	10,657	739	4	11,392
Total capital assets, being depreciated	18,288	739	4	19,023
Less accumulated depreciation for:				
Building and improvements	4,249	265		4,514
Equipment	9,119	485	3	9,601
Total accumulated depreciation	13,368	750	3	14,115
Total capital assets being depreciated — net	4,920	(11)	1	4,908
Total capital assets — net	$ 8,964	$ (11)	$ 2	$ 8,951

9. OTHER ASSETS

As of June 30, 2011, other assets consist of (in thousands):

Executed land	$4,699
Repossessed and foreclosed properties	1,676
Total	$6,375

Repossessed and foreclosed properties consist mainly of properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP in the United States of America, are not material. Management believes that the carrying value of these properties approximates fair value.

10. BONDS PAYABLE

Senior Pension Funding Bonds — On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the "Fiscal Agent"), presented to the board of trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the "Series A Bonds"). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the "Series B Bonds"). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the "Series C Bonds").

As of June 30, 2011, the outstanding balance of the Bonds is as follows (in thousands):

Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 55,485
Term Bonds, maturing in 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,599,255
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	171,400
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	123,263
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,110,763
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	2,672
Term Bonds, maturing in 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,672
Total bonds outstanding	3,010,690
Less bonds discount	(7,208)
Bonds payable — net	$3,003,482

Series A Bonds — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds (the "Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium. The Series A Bonds have the following debt service requirements (in thousands):

Years Ending June 30	Principal	Interest
2012	$ -	$ 95,504
2013		95,504
2014		95,504
2015		95,504
2016		95,504
2017-2021		382,017
2022–2026	200,000	454,121
2027–2031	48,041	419,021
2032–2036	8,500	416,961
2037–2041	962,720	322,971
2042–2046	37,550	114,054
2047–2051		107,070
2052–2056	170,300	107,070
2057–2058	161,700	26,235
Principal outstanding and interest	1,588,811	2,827,040
Add (deduct) accreted value on bonds outstanding	10,444	(10,444)
Total Series A Bonds	$ 1,599,255	$ 2,816,596

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and $243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium. The Series B Bonds have the following debt service requirements (in thousands):

Years Ending June 30	Principal	Interest
2012	$ -	$ 52,428
2013		52,428
2014		52,428
2015		52,428
2016		52,428
2017-2021		209,713
2022–2026		262,141
2027–2031	283,172	262,141
2032–2036	143,963	232,866
2037–2041	202,500	183,023
2042–2046		140,498
2047–2051		140,498
2052–2056	192,500	140,498
2057–2058	236,500	46,472
Principal outstanding and interest	1,058,635	1,879,990
Add (deduct) accreted value on bonds outstanding	52,128	(52,128)
Total Series B Bonds	$ 1,110,763	$ 1,827,862

Series C Bonds — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

The Series C Bonds have the following debt service requirements (in thousands):

Years Ending June 30	Principal	Interest
2012	$ -	$ 18,587
2013		18,587
2014		18,587
2015		18,587
2016		18,587
2017-2021		74,346
2022-2126		92,933
2027–2031	110,000	79,403
2032–2036	2,203	59,108
2037–2041	45,000	20,831
2042–2043	143,000	
Principal outstanding and interest	300,203	419,556
Add (deduct) accreted value on bonds outstanding	469	(469)
Total Series C Bonds	$ 300,672	$ 419,087
Total bonds	$3,010,690	$ 5,256,772

Activity of bonds payable during the year ended June 30, 2011, is as follows:

	June 30, 2010	Issuances	Accretion	Payments	June 30, 2011	Current Portion
Series A Bonds:						
Capital appreciation bonds	$ 52,198	$ -	$ 3,287	$ -	$ 55,485	$ -
Term bonds	1,543,770	-	-	-	1,543,770	-
Total Series A Bonds	1,595,968	-	3,287	-	1,599,255	-
Series B Bonds:						
Capital appreciation bonds	276,624	-	18,039	-	294,663	-
Term bonds	816,100	-	-	-	816,100	-
Total Series B Bonds	1,092,724	-	18,039	-	1,110,763	-
Series C Bonds:						
Capital appreciation bonds	2,507	-	165	-	2,672	-
Term bonds	298,000	-	-	-	298,000	-
Total Series C Bonds	300,507	-	165	-	300,672	-
Total bonds outstanding	2,989,199	-	21,491	-	3,010,690	-
Less bond discounts	(7,424)	-	216	-	(7,208)	-
Total bonds payable — net	$ 2,981,775	$ -	$ 21,707	$ -	$ 3,003,482	$ -

Pledge of Employer Contributions Pursuant to Security Agreement — The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the System of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

11. COFINA BONDS

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, the System received a special contribution of $162.5 million from the Puerto Rico Infrastructure Financing Authority, an instrumentality of the Commonwealth. The contribution was invested in the COFINA Bonds, which provide for a 7% accretion rate and maturity dates between 2043 and 2048. The COFINA Bonds are included as part of bonds and notes in the accompanying statement of plan net assets, while the related contribution is included as part of employers' contributions for the year ended June 30, 2011, in the statement of changes in plan net assets.

12. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

13. CONTINGENCIES

Loss Contingencies — The System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

Gain Contingency — The System, besides receiving contributions from participants and employers, also receives legislative appropriations from special laws to cover the increase in benefits to retirees. There have been several acts, which established an increase of 3% in pension annuities every three years for those members who meet the requirements outlined by these acts (Act No. 10 of May 21, 1992, Act No. 207 of August 13, 1995, Act No. 221 of August 9, 1998, Act No. 40 of June 13, 2001, and Act No. 157 of June 27, 2003). Also, there have been other laws that granted additional benefits, such as, summer and Christmas bonuses, and medical plan contributions, among others. Most of the funds needed to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Nevertheless, the costs of pension benefits that increased from 1992 to 2004 were not received in full by the System from legislative appropriations.

On June 30, 2007, the System filed a reimbursement claim with the Office of Management and Budget of the Commonwealth to collect the remaining unfunded special laws appropriations. The final outcome of this claim cannot be presently determined; therefore, no receivable has been recorded in the System's financial statements.

14. SUBSEQUENT EVENTS

On July 6, 2011, the Commonwealth enacted Act No. 116 to establish an increase in the employer's contributions percentage and to improve the collection of employer contribution receivables. As previously discussed, this Act provides for increases in employer contributions from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

In addition, this Act, provides for the collection of late employer contributions directly from the CRIM when a municipality fails to send their contributions within 30 days from the due date or from Hacienda in the case of agencies, when they fail to send their contributions as per the agreement date.

As the liquidity of the System's assets has been impaired by the growth of its loan portfolio, on August 8, 2011, the System's Board of Trustees issued Resolution No. 8054, limiting the personal and cultural loan maximum amounts to $5,000. Such limitations on loan amounts are expected to improve the liquidity of the System's assets. In addition, Resolution No. 8054 provides for certain limitations on the renewal of personal and cultural loans.

Furthermore, on September 18, 2011, the Commonwealth enacted Act No. 196, which allows the System to pledge contributions to guarantee personal loans issued by a financial institution. Act No. 196 also allows the System to sell personal, cultural and mortgage loans.

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REQUIRED SUPPLEMENTARY SCHEDULES OF EMPLOYERS' CONTRIBUTIONS AND FUNDING PROGRESS

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2011
(In thousands)

Year Ended June 30,	Actual Employer Contributions	Annual Required Contributions	Percentage Contributed
2011	$701,709	$1,734,979	40.44%
2010	534,275	1,459,774	36.60%
2009	594,509	1,258,695	47.23%
2008	581,285	1,191,275	48.80%
2007	566,524	816,472	69.39%
2006	559,198	816,472	68.49%

The above liabilities are for basic System benefits and selected System administered benefits.

See notes to schedules

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2011
(In thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Unit Credit (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$ 1,723,811	$ 25,457,354	$ 23,733,543	6.8%	$ 3,666,402	647.3 %
June 30, 2010	1,664,991	19,501,761	17,836,770	8.5%	3,818,332	467.1 %
June 30, 2009	1,842,143	18,943,586	17,101,443	9.7%	4,292,552	398.4 %
June 30, 2008	2,607,086	N/D	N/D	N/D	N/D	N/D
June 30, 2007	2,891,501	16,769,512	13,878,011	17.2%	4,246,409	326.8 %

The above liabilities are for basic System benefits and selected System administered benefits.

N/D = Not Determined

See notes to schedules

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

NOTES TO SCHEDULES
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

1. SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

The schedule of employers' contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

The System's schedule of employers' contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employees' contributions, pension benefits, and the System's administration costs.

The information was obtained from the last actuarial report as of June 30, 2011.

2. SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress provides information about the funded status of the System and the progress being made in accumulating sufficient assets to pay benefits when due. The information was obtained from the last actuarial report as of June 30, 2011.

* * * * * *

Exhibit 74

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Basic Financial Statements as of and for the Year Ended June 30, 2012, Required Supplementary Information as of and for the year ended June 30, 2012, and Independent Auditors' Report

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

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Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Ave., Ste. 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171

www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Employee's Retirement System of the Government of
the Commonwealth of Puerto Rico

We have audited the accompanying statement of plan net assets of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System"), a pension trust fund of the Commonwealth of Puerto Rico, as of June 30, 2012, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2012, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and supplemental schedules of employer contributions and funding progress on pages 2–10 and 42–43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note 1 to the basic financial statements, the System's unfunded actuarial accrued liability and funded ratio as of June 30, 2012, were $26,408 million and 4.5%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System's net assets will be exhausted by the fiscal year 2015, if measures are not implemented to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System. Management's plans concerning this matter are also described in Note 1.

Deloitte & Touche LLP

August 27, 2013

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affixed to original.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Introduction

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") administers retirement and other plan member benefits, such as personal, cultural and mortgages loans, occupational and non-occupational disability annuities and death benefits. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). Pension trust resources are only held in trust to pay retirement benefits to plan members. The System presents in the Management's Discussion and Analysis an overview of the annual basic financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2012. The financial performance of the System is discussed and analyzed within the context of the accompanying basic financial statements and disclosures.

Overview of the Basic Financial Statements

The Management's Discussion and Analysis introduces the System's basic financial statements. The basic financial statements include the following: (1) Statement of Plan Net Assets, (2) Statement of Changes in Plan Net Assets, and (3) Notes to the Basic Financial Statements. The System also includes additional information to supplement the basic financial statements.

Statement of Plan Net Assets and Statement of Changes in Plan Net Assets

Both of these statements provide information about the overall status of the System. The System uses the accrual basis of accounting to prepare its basic financial statements.

The statement of plan net assets includes all of the System's assets and liabilities, with the difference reported as net assets held in trust for pension benefits. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The statement of changes in plan net assets reports the change in the System's net assets held in trust for pension benefits during the year. All current year additions and deductions are included regardless of when cash is received or paid.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for an understanding of the data provided in the statements of plan net assets and changes in plan net assets.

Required Supplementary Information

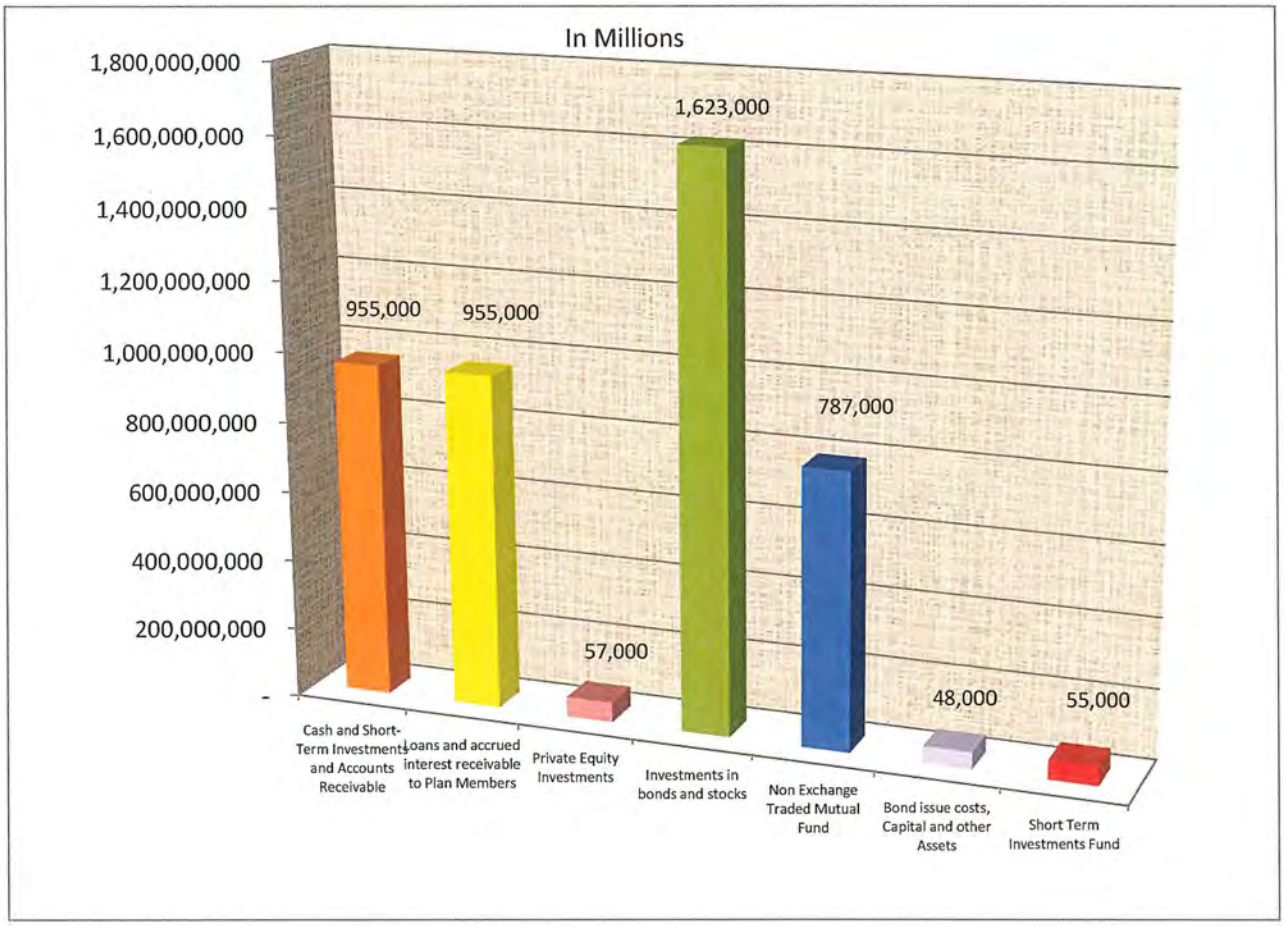
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2012 and 2011, amounted to $4,480 million and $4,987 million, respectively.

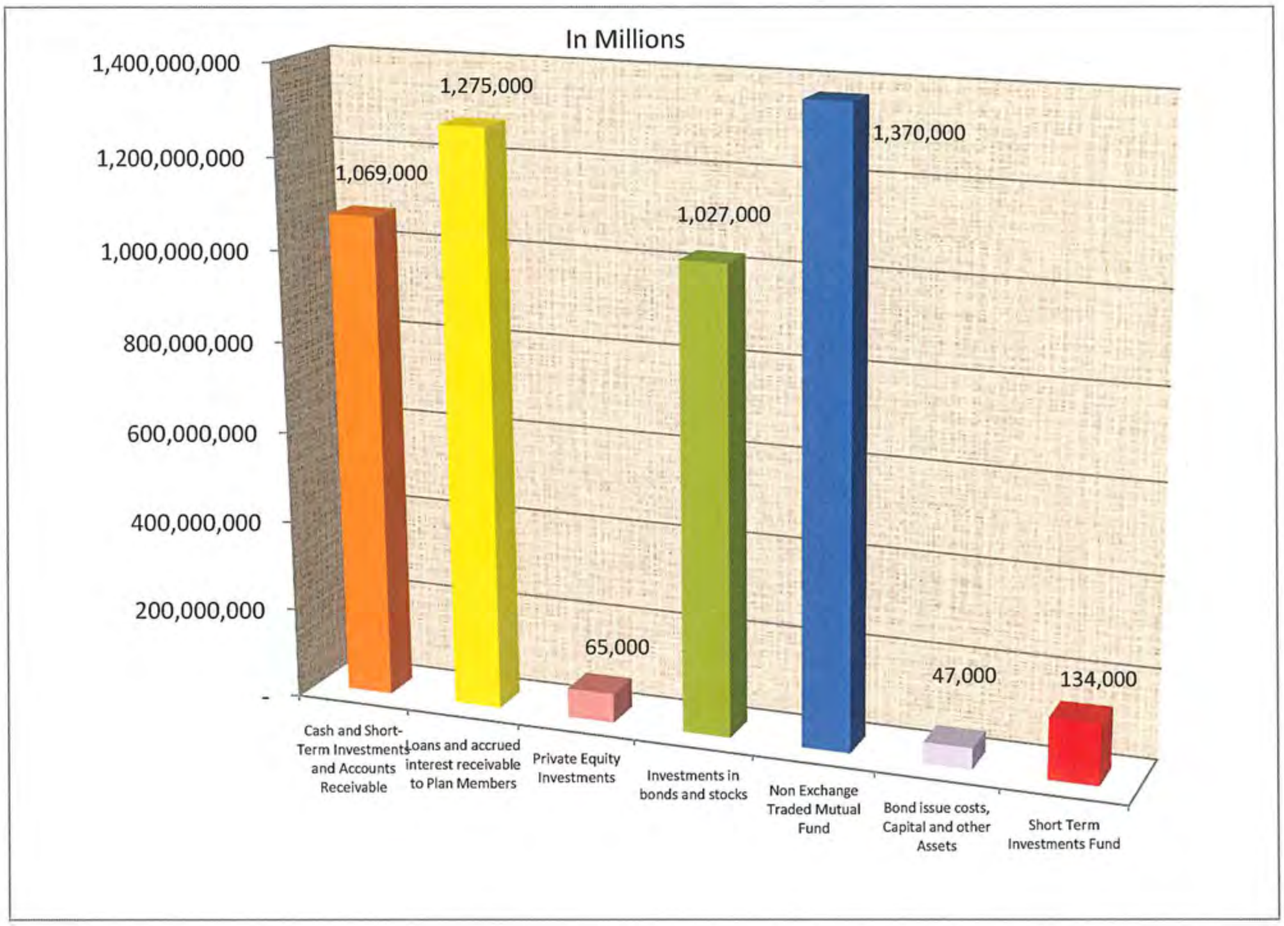
As of June 30, 2012, the System's total assets consist of the following:

- $955 million in cash and short-term investments, and accounts receivable, plus $55 million in collateral for securities lending
- $955 million in loans and accrued interest receivable from plan members
- $57 million in private equity investments
- $2,410 million of investments in bonds, stocks and non-exchange traded mutual funds
- $48 million in bond issue costs, capital and other assets



As of June 30, 2011, the System's total assets consist of the following:

- $1,069 million in cash and short-term investments, and accounts receivable, plus $134 million in collateral for securities lending
- $1,275 million in loans and accrued interest receivable from plan members
- $65 million in private equity investments
- $2,397 million of investments in bonds, stocks and non-exchange traded mutual funds
- $47 million in bond issue costs, capital and other assets



The following schedules present comparative summary financial statements of the System's plan net assets and changes in plan net assets for fiscal years 2012 and 2011:

Summary Comparative Statements of Plan Net Assets

	2012	2011	Total Dollar Change	Total Percentage Change
		(in thousands)		
Assets:				
Cash and short-term investments, and total accounts receivable	$ 1,009,873	$ 1,202,081	$ (192,208)	-16.0%
Investments	2,466,733	2,462,107	4,626	0.2%
Loans to plan members	955,057	1,275,381	(320,324)	-25.1%
Capital assets and other	48,119	47,498	621	1.3%
Total assets	4,479,782	4,987,067	(507,285)	-10.2%
Liabilities:				
Accounts payable and accrued liabilities	27,718	12,923	14,795	114.5%
Book overdraft		62,843	(62,843)	-100.0%
Payables for securities lending	54,870	134,319	(79,449)	-59.1%
Bond interest payable	13,877	13,876	1	0.0%
Insurance reserve for loans to plan members and investment purchased	90,735	11,450	79,285	692.4%
Bonds payable	3,026,593	3,003,482	23,111	0.8%
Other liabilities	28,457	24,363	4,094	16.8%
Total liabilities	3,242,250	3,263,256	(21,006)	-0.6%
Net assets held in trust for pension benefits	$ 1,237,532	$ 1,723,811	$ (486,279)	-28.2%

Summary Comparative Statements of Changes in Plan Net Assets

	2012	2011	Total Dollar Change	Total Percentage Change
		(in thousands)		
Additions:				
Contributions:				
Employers	$ 388,103	$ 511,707	(123,604)	-24.2%
Participating employees	316,178	322,008	(5,830)	-1.8%
Special laws	192,539	187,369	5,170	2.8%
Early retirement	812	305	507	166.2%
Investment income	272,382	645,720	(373,338)	-57.8%
Other	24,727	49,257	(24,530)	-49.8%
Total additions	1,194,741	1,716,366	(521,625)	-30.4%
Deductions:				
Retirement and other benefits	1,376,892	1,329,227	47,665	3.6%
Refunds of contributions	52,228	91,195	(38,967)	-42.7%
Interest on bonds payable	190,737	189,342	1,395	0.7%
General and administrative	45,393	34,583	10,810	31.3%
Other	15,770	13,199	2,571	19.5%
Total deductions	1,681,020	1,657,546	23,474	1.4%
Increase (decrease) in plan net assets	$ (486,279)	$ 58,820	$ (545,099)	926.7%

- The System total assets exceeded total liabilities by $1,238 million (plan net assets) for the current fiscal year compared to the prior year, for which assets exceeded liabilities by $1,724 million.

- Based on the last actuarial valuation as of June 30, 2012, the System's funding ratio of the actuarial accrued liability is 4.5%.

- Loans to plan members amounted to $955 million as of June 30, 2012, compared to $1,275 million as of June 30, 2011.

The basic financial statements of the System for the fiscal year ended June 30, 2012, presents a decrease in net assets of approximately $486 million, when compared to the prior fiscal year. This was mostly the result of a decrease in loans and interest receivable from plan members of $320 million. During the year ended June 30, 2012, the Board of Trustees approved the sale of certain personal loans with a carrying value of approximately $225 million to a commercial bank.

In addition, there was a decrease in cash and short-term investments of approximately $155 million, mainly due to a decrease in collateral for securities lending of $79 million, and a decrease in cash deposits with the Government Development Bank for Puerto Rico and the Department of Treasury of the Commonwealth (Hacienda) of $64 million, including the settlement of the prior year cash overdraft.

Decrease in liabilities of approximately $21 million is mainly due to the settlement of the cash overdraft with Hacienda of $63 million and a decrease in payable for securities lending of $79 million. Such decreases were offset by an increase in payable for securities purchased of $79 million, accretion of bonds payable of $23 million and an increase in accounts payable of $15 million, including $14 million related to the voluntary termination benefits program provided by Law 70 (see Note 1).

During fiscal year 2012, the plan member and employer contributions, including early retirement contributions, decreased by approximately $129 million, from $834 million during fiscal 2011 to $705 million during fiscal year 2012. Such decrease was mainly due to the prior year special contribution of the capital appreciation bonds issued by Corporación para el Fondo de Interés Apremiante de Puerto Rico (the "COFINA Bonds") amounting to $162.5 million, which was partially offset by an increase in regular employer contributions of approximately $39 million. The System recognized a net appreciation in the fair value of investments of $99 million during 2012, which represents a decrease of $373 million from the net appreciation of $472 million recognized in 2011.

Issuance of Bonds Payable

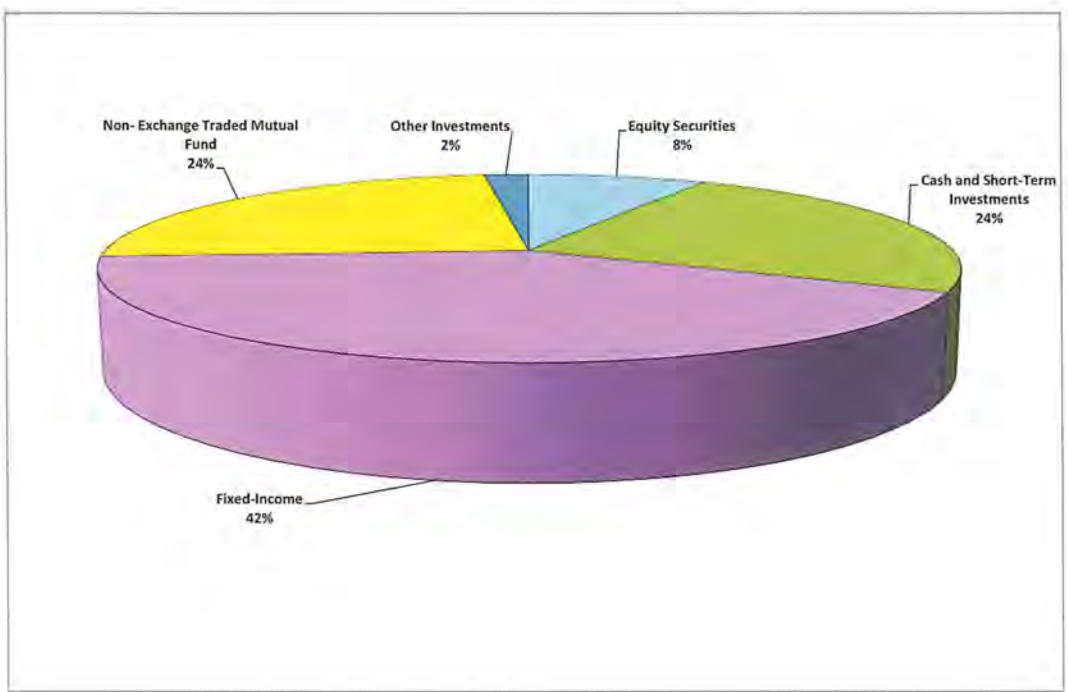
During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds currently available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial pension liability. As of June 30, 2012, bonds payable amounted to $3,027 million.

Financial Analysis of the System

Since December 2009, the System, with the assistance of an external investment consultant, has performed various assets and liabilities studies. The purpose of these studies is to properly align the current and future liabilities of the System with its net assets.

In the development of these studies, the external consultant considered the current investment program status; actual liquidity needs; future contributions streams; possible changes in demographics, contribution flows, and general assumptions used by the System. Nevertheless, the results of these studies are long term in nature.

The new asset allocation of the System's investment portfolio fulfills the System's needs, and since it is more adequately balanced, it provides protection in case of a market downturn. As of June 30, 2012, the asset allocation of the System's investment portfolio is 42% in fixed-income investments, including loans receivable, 24% in non-exchange traded mutual funds, 8% in equity securities, 24% in cash and short-term investments, and 2% in other investments as shown in the following chart:



Other Investments and Transactions

As of June 30, 2012 and 2011, the System held approximately $955 million and $1,275 million, respectively, in loans and interest receivable from plan members, which represents 30% and 36 %, respectively of the total investment portfolio. As of June 30, 2012, loans and interest receivable from plan members consist of $153 million in mortgage loans, $695 million in personal loans, $72 million in cultural trips loans, and $40 million in accrued interest receivable, less $5 million in allowance for adjustment and losses in realization. As of June 30, 2011, loans and interest receivable from plan members consist of $148 million in mortgage loans, $1,033 million in personal loans, $73 million in cultural trips loans, and $31 million in accrued interest receivable, less $9 million in allowance for adjustment and losses in realization. As of June 30, 2012 and 2011, the fair value of the System's investment in limited partnerships amounted to $57.4 and $65.5 million, respectively, which represents approximately 2% each of the investment portfolio, as of June 30, 2012 and 2011.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For financial statements purposes, the amount of securities that was involved in securities lending transactions as of June 30, 2012, has been presented, along with the required disclosures, in accordance with current government accounting pronouncements. For the years ended June 30, 2012 and 2011, net income from the securities lending activity amounted to approximately $139,000 and $185,000, respectively.

Capital Assets

The System's investment in capital assets as of June 30, 2012 and 2011, amounted to approximately $11.7 million and $9 million respectively, net of accumulated depreciation. Capital assets include land, building and improvements, construction in progress, and equipment. Building and improvements consist of the facilities in which the System has its operations.

Funding Status

The System was created by Act No. 447 of May 15, 1951, and since its inception it lacked proper planning and the levels of contributions were relatively low and still remain low in comparison to the level of benefits. In addition, all retirement systems in place before 1951 were merged into the System, which then had to absorb all of their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced, however, without the appropriate increase in contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified to decrease the benefits and to postpone the retirement age from 55 to 65, in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits will require actuarial studies and must state the financing source.

Ten years later, the continuing increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the System benefit structure was further amended to provide for a cash balance program, similar to a cash balance plan, to be funded only by employees' contributions. The new program is known as the Retirement Savings Account Program ("System 2000"). Under System 2000, the employers' contributions continue at the same level as the original defined benefit structure, but are being

used to fund the accrued actuarial liability of the original defined benefit structure that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act No. 296 was enacted to amend the dispositions of Act No. 305 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act No. 296 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the System consists of three different benefit structures, which are administrated according to their specifications in the Act. For all plan members, excluding System 2000 program participants, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee's contributions range from 8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions for the year ended June 30, 2012, were 10.275% of the employee salary.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds currently available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds and used these investments and the earnings thereon to provide such pension benefits to beneficiaries. On January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Nevertheless, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in employees contributions to cope with those factors and, therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events, plus the continuous increase in the actuarial liability have had a negative effect over the System's unfunded actuarial accrued liability. Based on the last actuarial valuation at June 30, 2012, the System's funded ratio is 4.5%, the actuarial obligation is $27,646 million, total actuarial value of plan assets amounted to $1,238 million, and the unfunded actuarial accrued liability amounted to $26,408 million.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. In order to improve the Systems funding ratio, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, include 1) improving the collection of late contributions by receiving such contributions directly from the Centro Recaudaciones Ingresos Municipales (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from Hacienda in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of the $162.5 million COFINA Bonds in 2011.

Subsequent to June 30, 2012, the Governor of the Commonwealth of Puerto Rico signed into law Act No. 3 of 2013 (see Note 1), which significantly amends the provisions of the System, including, among other, (i) decrease in future benefits for active participants of the contributory defined benefit plan, (ii) increase in retirement age for the majority of active and new participants, (iii) increase in employee contributions from 8.275% to 10%, (iv) elimination of lump sum distributions to System 2000 participants, (v) reductions of other benefits paid to retirees, and (vi) modifications to disability and survivor benefits.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

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EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2012
(In thousands)

ASSETS:		
Cash and short-term investments:		
Deposits at commercial banks	$	143,364
Deposits with Puerto Rico Treasury Department		59,250
Deposits with Government Development Bank for Puerto Rico:		
Unrestricted		113,313
Restricted		233,931
Deposits with Bank of New York		166,436
Collateral for securities lending		54,870
Total cash and short-term investments		771,164
Investments:		
Bonds and notes		1,374,752
Stocks		247,772
Non-exchange traded mutual funds		786,839
Private equity investments		57,370
Total investments		2,466,733
Total cash and investments		3,237,897
Loans and interest receivable from plan members — net of allowance for adjustments and losses in realization		955,057
Accounts receivable:		
Employers — net		111,975
Commonwealth of Puerto Rico		12,697
Due from the Commonwealth of Puerto Rico Judiciary Retirement System		1,345
Investments sold		78,941
Accrued investment income		13,044
Other		20,707
Total accounts receivable		238,709
Capital assets — net		11,668
Bond issue costs — net		31,076
Other assets		5,375
Total assets		4,479,782

(Continued)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2012
(In thousands)

LIABILITIES:		
Accounts payable and accrued liabilities	$	27,718
Payables for securities lending		54,870
Investments purchased		82,384
Bond interest payable		13,877
Funds of mortgage loans and guarantee insurance reserve for loans to plan members		8,351
Bonds payable		3,026,593
Other liabilities		28,457
Total liabilities		3,242,250
CONTINGENCIES (Note 13)		
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of Funding Progress is presented on page 43)	$	1,237,532

See notes to financial statements.

(Concluded)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

ADDITIONS:	
Contributions:	
Employers	$ 388,103
Participating employees	316,178
Early retirement	812
Special laws	192,539
Total contributions	897,632
Investment income:	
Net appreciation of investments	99,012
Dividend income	2,095
Interest income	176,892
Total investment income	277,999
Less investment expense	5,617
Net investment income	272,382
Other income	24,727
Total additions	1,194,741
DEDUCTIONS:	
Annuities	1,170,749
Benefits under special laws	192,539
Death benefits	13,604
Refunds of contributions:	
Employers	1,228
Participating employees	51,000
Interest on bonds payable	190,737
General and administrative	45,393
Other expenses	15,770
Total deductions	1,681,020
NET DECREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(486,279)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	1,723,811
End of year	$ 1,237,532

See notes to financial statements.

1. ORGANIZATION

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administration") and was created by Act No. 447 on May 15, 1951. The System began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the System is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2012, the System has an unfunded actuarial accrued liability of approximately $26,408 million, representing an 4.5% funding ratio, using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not implemented to deal with this situation, the System's net assets will be exhausted by the fiscal year 2015. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the System are government agencies obligated to make actuarial contributions to fund the System.

To address to these issues, the System and the Commonwealth, with the assistance of the System's external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the System's investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Act No. 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Other measures taken to improve the funding ratio of the System, include 1) improving the collection of late contributions by receiving such contributions directly from the Centro Recaudaciones Ingresos Municipales (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by Corporación para el Fondo de Interés Apremiante de Puerto Rico (the "COFINA Bonds") amounting to $162.5 million in 2011.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment terminations to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the "General Fund") and by the corresponding employers, covering their respective employees until the plan member reaches the later of age 55 for members under Law 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The System will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make a contribution equal to 9.275% (17.55% for public corporations) of the final salary of the plan member to the System. The System, as a component of the Administration, an employer under the defined benefit structure of the System, has recorded a liability of approximately $14 million for its responsibility as an employer under Act No. 70.

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, in order to implement a comprehensive reform plan to address the System's unfunded actuarial liability. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the System through several measures that include, among other:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

2. Increases the minimum pension for current retirees from $400 to $500 per month.

3. Retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. Retirement age for active System 2000 participants is increased gradually from age 60 to age 65.

5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.

6. Eliminates the "merit annuity" available to participants who joined the System prior to April 1, 1990 (see Note 3).

7. The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

8. The employee contribution rate will increase from 8.275% to 10%.

9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

10. Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus will be reduced from $600 to $200 and is eliminated for future retirees. The summer bonus will be eliminated. Resulting employer contributions savings will be contributed to the System.

11. Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.

12. Survivor benefits will be modified.

In addition, to further improve the liquidity and solvency of the System, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This incremental contribution will be determined on an annual basis, based on actuarial studies to be performed by the System's actuaries. An appropriation for such additional contribution of approximately $120 million has been included in the Commonwealth's proposed budget for the fiscal year 2014.

Based on current census data, expectations of market conditions and other actuarial information provided by the consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contributions to be received from the Commonwealth during the next 20 years, as provided by Act No. 32, will be sufficient to cover the System's current and future obligations.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

Basis of Presentation — The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended by GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*. Participating employees and employer's contributions are recognized as additions in the period in which the employee services are rendered. Annuities, benefits, and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions to net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

Cash and Short-Term Investments — Cash and short-term investments consist of overnight deposits with the custodian bank, securities lending collateral, money market funds, and certificates of deposits in Government Development Bank for Puerto Rico (GDB) (a component unit of the Commonwealth) and commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders administered by the mortgage servicers in the servicing of loans (escrow accounts), expired checks not claimed by the plan members, restricted for repayments, and proceeds from the issuance of the Series A and B Bonds restricted for investment purchases.

Investments — Investments are carried at fair value. The fair value of investments is based on quoted prices, if available. The System has investments valued at approximately $57 million or 1.3% of total assets as of June 30, 2012, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers. Such investments consist of private equity investments.

Securities transactions are accounted for on the trade date. Realized gains and losses on securities are determined by the average cost method and are included in the statement of changes in plan net assets.

Loans to Plan Members — Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance. For the year ended June 30, 2012, the maximum amount of loans to plan members for mortgage loans was $100,000, and $5,000 for personal and cultural trip loans.,

The System services mortgage loans with aggregate principal balances of approximately $5.3 million at June 30, 2012, related to certain mortgage loans sold to the Federal National Mortgage Association (FNMA) for a fee of 25%. The income for 2012 amounted to $16,480 and is recognized as interest income in the accompanying statement of changes in plan net assets.

During 2012, the System repurchased $1,156 in mortgage loans that were sold during fiscal year 1998 to FNMA. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

Insurance Premiums, Claims, and Reserve for Life Insurance on Loans to Plan Members — Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly, based on the annual higher claim amount of a five-year period increased by a management determined percentage.

Capital Assets — Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets, which have an initial individual cost of $500 or more at the date of acquisition and have a useful life equal to or in excess of four years. Capital assets are recorded at historical cost or their estimated historical cost, if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at the time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

The System evaluates capital assets for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether the impairment of an asset has occurred. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System should be measured using the method that best reflects the diminished service utility of the capital asset. The impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that use the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. During the year ended June 30, 2012, management assessed and determined that no impairment adjustment was deemed necessary.

Recently Issued Accounting Pronouncements — The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2012:

a. GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is effective for financial statements for periods beginning after June 15, 2011.

b. GASB Statemen*t No. 60, Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for financial statements for periods beginning after December 15, 2011.

c. *GASB Statement No. 61, The Financial Reporting Entity: Omnibus — an amendment of GASB* Statements No. 14 and No. 34, which is effective for financial statements for periods beginning after June 15, 2012.

d. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after December 15, 2011.

e. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for financial statements for periods beginning after December 15, 2011.

f. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision-an amendment of GASB Statement No. 53*, which is effective for financial statements for periods beginning after June 15, 2011.

g. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012.

h. GASB Statement No. 66, *Technical Corrections — 2012*, which is effective for financial statements for periods beginning after December 15, 2012.

i. GASB Statement No. 67, *Financial Reporting for Pension Plan — an amendment of GASB Statement No. 25,* which is effective for financial statements for period beginning after June 15, 2013.

j. GASB Statement No. 68, *Accounting and Financial Reporting for Pension — an amendment of GASB Statement No. 27,* which is effective for financial statements for periods beginning after June 15, 2014.

k. GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* which is effective for financial statements for period beginning after December 15, 2013.

l. GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which is effective for financial statements for periods beginning after June 15, 2013.

The impact of these pronouncements in the System's financial statements has not yet been determined.

3. PLAN DESCRIPTION

The System consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The System is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the System) are covered by the System. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the System. The System is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

At June 30, 2012, membership of the System consists of the following:

Retirees and beneficiaries currently receiving benefits	117,861
Current participating employees — defined benefit	72,523
Cash Balance System 2000 participating employees	62,043
Total membership	252,427

Plan members, other than those who joined the System after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	Other Employees
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act. 3 (see Note 1), merit annuities will no longer be available to participants who joined the System after April 1, 1990.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the System are left within the System until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service

- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the System, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the System on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the System to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.), such as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the then Governor signed Act No. 35 to provide for an increase of 3% of the pension paid by the System to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the System, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the System's retirees. As of June 30, 2012, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico National Parks Company. The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipality's employees. The Puerto Rico National Parks Company has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the System in three installments on each July 31 starting on 2009 through 2012. The Municipality of San Juan will reimburse the annuities and other benefits paid by the System during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (REA) implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. REA has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 224 dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the System on or after January 1, 2000.

Employees participating in the System as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the System, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the System's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (10.275% of the employee's salary for 2012) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2012, System 2000's membership consisted of 62,043 current participating employees.

As discussed in Note 1, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the System's benefit structures and programs, as described above.

4. FUNDING POLICY

The contribution requirement to the System is established by law and is not actuarially determined. Required employers' contributions for the year ended June 30, 2012, consisted of 10.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary, with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's

contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the System's pension benefit obligations and general and administrative deductions.

The System, besides the contributions received from plan members and employers, also receives legislative appropriations for special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Actuarial Information — Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2012, using the projected unit credit cost method, with straight proration based on service to decrement. The significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 6%, (b) assumed compound rate of wage increases of 3% per year, (c) assumed inflation rate of 2.5%, (d) assumed cost of living adjustment of 0.99% annual COLA to approximate 3% triennial increases, and (e) assumed mortality as follows:

Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA.

Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the System's experience from 2007-2012.

Postretirement Disabled Mortality — Gender-specific mortality rates were developed based on a study of the System's experience from 2007-2012.

During the year ended June 30, 2012, the System decreased the assumed rate of return from 6.4% in 2011 to 6% in 2012, which resulted in an increase of approximately $2.09 billion in the actuarial accrued liability.

As of June 30, 2012, the actuarial accrued liability and the unfunded actuarial accrued liability were approximately $27,646 million and $26,408 million, respectively.

The Legislature of the Commonwealth enacted Act No. 1 of February 16, 1990, to improve the solvency of the System for the next 50 years. Among other provisions, the legislation increased the level of contributions to the System, reduced the benefits for new participating employees, and increased the retirement age from 55 to 65 years. Further, through Act 305 of September 24, 1999, the original defined benefit structure was no longer available to new employees and System 2000 was created (as described in Note 3) for all plan members who started working for the Commonwealth effective January 1, 2000, or after.

As discussed in Note 1, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the System's funding policies, as described above.

5. FUNDED STATUS AND FUNDING PROGRESS

The System's funded status as of June 30, 2012, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
$ 1,238	$ 27,646	$ 26,408	4.5 %	$ 3,570	740 %

The schedule of funding progress (see page 44), presented as required supplementary information (RSI) following the notes to the financial statements, presents multilayer trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the date of the latest actuarial valuation is as follows:

Valuation date	June 30, 212
Actuarial cost method	Projected unit credit cost method, with straight proration based on service to decrement
Amortization method	30 years closed, level dollar
Remaining amortization period	25 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	6%
Projected salary increases	3% (3.0% increase in 2011–12)
Projected payroll growth	2.50%
Inflation	2.50%
Mortality rate	Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the System's experience from 2007-2012. Postretirement Disabled Mortality — Gender-specific disabled annuitant mortality rates were developed based on a study of the System's experience from 2007-2012.
Cost of living adjustment	3% triennial increases. (COLA is only applied to members covered under Act 127 who become disabled or die in the line of duty).

The information about the funding status and funding progress of the System as of June 30, 2013, included in the basic financial statements and RSI does not take into consideration the impact of Act No. 3, as discussed in Note 1.

6. CASH AND INVESTMENTS

Custodial Credit Risk Related to Deposits — Custodial credit risk is the risk that, in an event of a bank failure, the System's deposits might not be recovered. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, Bank of New York, and with other non Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

As of June 30, 2012, depository bank balances of approximately $839 million were uninsured and uncollateralized as follows (in thousands):

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Deposits at commercial banks	$ 143,364	$ 143,364	$ 143,364
Deposits with GDB and Puerto Rico Treasury Department	406,494	463,399	463,399
Deposits with Bank of New York	166,436	177,219	177,219
Collateral for securities lending	54,870	54,870	54,870
Total	$ 771,164	$ 838,852	$ 838,852

Investments — The fair value of investments in marketable securities held by the System as of June 30, 2012, is as follows (in thousands):

U.S. government and sponsored agencies' securities	$ 193,572
Municipal bonds	52,499
COFINA Bonds	245,339
U.S. corporate bonds	883,342
Total bonds and notes	1,374,752
U.S. corporate stocks	247,772
Non-exchange traded mutual funds:	
Equity and other funds:	
U.S.	545,558
Fixed income funds:	
U.S.	157,870
Non-U.S.	83,411
Total non-exchange traded mutual funds	786,839
Private equity investments	57,370
Total investments	$ 2,466,733

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2012:

Custodial Credit Risk Related to Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2012, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, State Street Bank and Trust and Bank of New York, except for securities lent.

Credit Risk — All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted-average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings.

The System's U.S. government and sponsored agencies' securities portfolio includes approximately $34,566,000 of U.S. Treasury notes and approximately $149,399,000 of mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government. The Moody's ratings of bonds and notes as of June 30, 2012, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$ 183,965
A2	U.S. government and sponsored agencies securities	1,547
A3	U.S. government and sponsored agencies securities	1,486
Baa3	U.S. government and sponsored agencies securities	1,549
Aaa	U.S. corporate bonds	45,341
Aa1	U.S. corporate bonds	9,042
Aa2	U.S. corporate bonds	16,988
Aa3	U.S. corporate bonds	43,194
A1	U.S. corporate bonds	78,270
A2	U.S. corporate bonds	132,991
A3	U.S. corporate bonds	124,834
Baa1	U.S. corporate bonds	125,980
Baa2	U.S. corporate bonds	191,171
Baa3	U.S. corporate bonds	85,790
Ba3	U.S. corporate bonds	6,839
B1	U.S. corporate bonds	1,669
B2	U.S. corporate bonds	1,830
B3	U.S. corporate bonds	463
Ba1	U.S. corporate bonds	13,092
BA2	U.S. corporate bonds	4,500
A1	Municipal bonds (COFINA Bonds)	245,339
A1	Municipal bonds	5,001
A2	Municipal bonds	11,607
Aa1	Municipal bonds	866
Aa2	Municipal bonds	9,439
Aa3	Municipal bonds	2,288
Aaa	Municipal bonds	7,671
Baa1	Municipal bonds	13,946
NR	Various	8,054
Total		$ 1,374,752

In addition, the System invests in shares of the State Street Global Advisor Intermediate U.S. Credit Index Non-Lending Fund (the "SSgA Intermediate Fund"). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays Capital U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their net asset value (NAV) and have no redemption restrictions. The System's investment in the SSgA Intermediate Fund is included as part of non-exchange traded mutual funds.

Moody's credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2012, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa/Aa1	Government sponsored	$ 29,026
Aa2/Aa3	Government sponsored	6,539
A1/A2	Government sponsored	6,008
A3/Baa1	Government sponsored	8,493
Aa3/A1	Corporate bonds	748
A2/A3	Corporate bonds	114,343
A3/Baa1	Corporate bonds	54,505
Baa1/Baa2	Corporate bonds	21,619
Total		$ 241,281

Concentration of Credit Risk — No investment in marketable securities in any organization represents 5% or more of the System's net assets. As of June 30, 2012, the System owned shares in the SSgA S&P 500 Flagship Fund (the "S&P 500 Fund"), the SSgA Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund"), and the SSgA Intermediate Fund, as follows (in thousands):

Fund Name	Shares	Fair Value
S&P 500 Fund	130	$ 37,775
Russell 3000 Fund	38,509	507,783
SSgA Intermediate Fund	9,038	241,281
Total		$ 786,839

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor's 500 Index and the Russell 3000 Index, respectively. Shares of these funds can be redeemed on a daily basis at NAV and have no redemption restrictions. The System's investment in these funds is included as part of non-exchange traded mutual funds.

As of June 30, 2012, the investments underlying the S&P 500 Fund, Russell 3000 Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	Russell 3000 Fund	S&P 500 Fund	SSgA Intermediate Fund
Information technology	19 %	20 %	4 %
Health care	12 %	12 %	
Financials	16 %	14 %	30 %
Energy	9 %	11 %	5 %
Consumer staples	10 %	11 %	10 %
Industrials	11 %	11 %	6 %
Consumer discretionary	12 %	11 %	5 %
Utilities	4 %	4 %	7 %
Telecommunication services	3 %	3 %	7 %
Materials	4 %	3 %	5 %
Government sponsored			21 %
Total	100 %	100 %	100 %

Interest Rate Risk — In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed-income securities.

The contractual maturities of investments in debt securities as of June 30, 2012, are as follow (in thousands):

			Investment Maturities (In Years)			
	Maturity Between	Fair Value	Less Than 1	Between 1–5	Between 5–10	More Than 10
U.S. government and sponsored agencies' securities	(2013–2051)	$ 193,572	$ 390	$ 66,450	$ 51,770	$ 74,962
U.S. Corporate bonds	(2013–2068)	883,342	44,051	334,956	448,212	56,123
Municipal bonds	(2014–2033)	52,499		19,593	27,914	4,992
COFINA bonds	(2043–2048)	245,339				245,339
Total bonds		$ 1,374,752	$ 44,441	$ 420,999	$ 527,896	$ 381,416

As of June 30, 2012, investment maturities as a percentage of total debt securities are as follows:

Maturity	Portfolio Percentage
Less than one year	3 %
One to five years	31 %
More than five to ten years	38 %
More than ten years	28 %
Total	100 %

Foreign Currency Risk — The foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2012, the System's investment in the SSgA Intermediate Fund of $241 million represented 31% of the commingled fund. As of June 30, 2012, the composition of the underlying investments in this fund by country was as follows:

	Currency	Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	1
United Kingdom	Sterling Pound	4
Total Europe		9 %
Pacific Basin:		
Australia	Australian Dollar	1
Japan	Japanese Yen	1
Total Pacific Basin		2 %
Americas:		
Canada	Canada Dollar	5
Mexico	Mexican Peso	2
Brazil	Brazilian Real	2
U.S.	U.S. Dollar	65
Total Americas		74 %
Supranational	Various	8 %
Other	Various	7 %
Total investment		100 %

Investments in Limited Partnerships — The fair value of investments in limited partnerships at June 30, 2012, amounted to approximately $57 million and is presented within investments in the basic statement of plan net assets. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements.

As of June 30, 2012, the date of commitment, total commitment, fiscal year contributions, contributions to date, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of Commitment	Total Commitment	Fiscal year Contributions	Contributions to Date at Cost	Estimated Fair Value
Grupo Guayacán, Inc.:					
Guayacán Fund of Funds, LP	September 1996	$ 25,000	$ -	$ 23,820	$ 1,682
Guayacán Fund of Funds II, LP	August 1999	25,000		23,681	7,181
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, LP	January 1997	5,000		4,645	2,975
Guayacán Private Equity Fund II, LP	April 2007	15,000	1,786	19,030	19,395
Venture Capital Fund, Inc.	November 1995	800		800	798
GF Capital Mnagement & Advisors, LLC —					
GF Capital Private Equity Fund LP	December 2006	25,000	3,954	24,253	19,086
Chase Capital Partners Private Equity					
Fund of Funds Corporate Investors II, LTD	July 2000	20,000		18,955	6,253
Martineau Bay Resort, s. en c. (s.e.)	July 1998	1,796		1,796	
Total		$ 117,596	$ 5,740	$ 116,980	$ 57,370

Securities Lending Transactions — The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the System. At June 30, 2012, the collateral received represented 102% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2012, consisted of the following (in thousands):

Securities Lent	Fair Value
U.S. government and sponsored agencies' securities	$ 11,439
U.S. corporate stocks	1,669
Non-exchange traded mutual funds:	
U.S.	34,156
Non-U.S.	6,484
Total	$ 53,748

The underlying collateral for these securities had a fair value of approximately $54,870,000 as of June 30, 2012. The collateral received was invested in a short-term investment fund sponsored by the custodian bank and is included as part of cash and short-term investments in the accompanying statement of plan net assets. As of June 30, 2012, the distribution of the short-term investment fund by investment type is as follows:

Investment type	Percentage
Securities bought under agreements to resell	100 %

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

7. LOANS AND INTEREST RECEIVABLE FROM PLAN MEMBERS

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. For the year ended June 30, 2012, the maximum amount of loans to plan members for mortgage loans was $100,000, and $5,000 for personal and cultural trip loans.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2012, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$ 694,983
Mortgage	152,666
Cultural trips	72,099
Total loans to plan members	919,748
Accrued interest receivable	40,159
Total loans and interest receivable from plan members	959,907
Less allowance for adjustments and losses in realization	(4,850)
Total loans and interest receivable from plan members — net	$ 955,057

On June 28, 2012, personal loans with a carrying value of approximately $225 million portfolio were sold to a commercial bank. The net proceeds from the sale of these loans amounted to approximately $223 million, after deducting accrued interest and certain legal and contractual reserves, and including escrow deposits of $6.8 million at June 30, 2012. As per a servicing agreement, the System will be in charge of the servicing, administration and collection of the loans at and after the closing date. A servicing fee will be charged by the System.

8. ACCOUNTS RECEIVABLE FROM EMPLOYERS

As of June 30, 2012, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$ 7,932
Special laws	45,746
Employer and employee contributions	47,795
Interest on late payments	11,413
Total accounts receivable from employers	112,886
Less allowance for doubtful accounts receivable	(911)
Accounts receivable from employers — net	$ 111,975

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the System.

The accounts receivable from employers related to special laws amounts to $45.8 million as of June 30, 2012. The System has entered into installment payment agreements with approximately 84% of these employers, while the remaining 16% of employers have not entered into installment payments with the System.

As of June 30, 2012, accounts receivable from employers include amounts due from Medical Service Administration (ASEM by its Spanish acronym) of approximately $16.7 million, as follow (in thousands):

Employer and employee contributions	$ 11,150
Interest	5,507
Total accounts receivable from ASEM	$ 16,657

During the fiscal year 2011, the Commonwealth's Legislature approved Law 2961 assigning funds to ASEM to settle its account receivable with the System as of June 30, 2010. On January 5, 2011, the System received an initial payment of $54 million. In addition, on August 2011, the System received an interest payment of $14 million. ASEM and the System has established a 3 year payment plan for the remaining outstanding balance of employer and employee contributions owed.

9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 969	$ -	$ -	$ 969
Construction in progress	3,074		2,602	472
Total capital assets, not being depreciated	4,043		2,602	1,441
Capital assets, being depreciated:				
Building and improvements	7,631	5,116		12,747
Vehicle	93		93	
Equipment	11,299	750	99	11,950
Total capital assets, being depreciated	19,023	5,866	192	24,697
Less accumulated depreciation for:				
Building and improvements	4,514	302	322	4,494
Equipment	9,601	455	80	9,976
Total accumulated depreciation	14,115	757	402	14,470
Total capital assets being depreciated — net	4,908	5,109	(210)	10,227
Total capital assets — net	$ 8,951	$ 5,109	$ 2,392	$ 11,668

10. OTHER ASSETS

As of June 30, 2012, other assets consist of (in thousands):

Executed land	$ 4,699
Repossessed and foreclosed properties	676
Total	$ 5,375

Repossessed and foreclosed properties consist mainly of properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP in the United States of America, are not material. Management believes that the carrying value of these properties approximates fair value.

11. BONDS PAYABLE

Senior Pension Funding Bonds — On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the "Fiscal Agent"), presented to the board of trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the "Series A Bonds"). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the "Series B Bonds"). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the "Series C Bonds").

As of June 30, 2012, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2029, bearing interest at 6.20%	$ 58,979
Term Bonds, maturing in 2024, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2032 through 2039, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2040 through 2043, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2056 through 2059, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,602,749
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2029 through 2031, bearing interest at 6.40%	182,539
Capital Appreciation Bonds, maturing from 2032 through 2035, bearing interest at 6.45%	131,350
Term Bonds, maturing in 2032, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2037 through 2040, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2056 through 2059, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,129,989
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2031, bearing interest at 6.50%	2,848
Term Bonds, maturing in 2029, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2039, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2044, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,848
Total bonds outstanding	3,033,586
Less bonds discount	(6,993)
Bonds payable — net	$ 3,026,593

Series A Bonds — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds (the "Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of

twelve 30-day months. The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium. The Series A Bonds have the following debt service requirements (in thousands):

Years Ending June 30	Principal	Interest
2013	$ -	$ 95,504
2014		95,504
2015		95,504
2016		95,504
2017		95,504
2018-2022		477,521
2023-2027	200,000	430,721
2028-2032	48,041	418,837
2033-2037	8,500	415,731
2038-2042	962,720	206,589
2043-2047	37,550	107,070
2048-2052		107,070
2053-2057	170,300	90,477
2058-2059	161,700	5,215
Principal outstanding and interest	1,588,811	2,736,751
Add (deduct) accreted value on bonds outstanding	13,938	(13,938)
Total Series A Bonds	$ 1,602,749	$ 2,722,813

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and $243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

The Series B Bonds have the following debt service requirements (in thousands):

Years Ending June 30	Principal	Interest
2013	$ -	$ 52,428
2014		52,428
2015		52,428
2016		52,428
2017		52,428
2018-2022		262,141
2023-2027		262,141
2028-2032	283,172	254,823
2033-2037	143,963	221,295
2038-2042	202,500	153,255
2043-2047		140,498
2048-2052		140,498
2053-2057	192,500	121,585
2058-2059	236,500	9,186
Principal outstanding and interest	1,058,635	1,827,562
Add (deduct) accreted value on bonds outstanding	71,354	(71,354)
Total Series B Bonds	$ 1,129,989	$ 1,756,208

Series C Bonds — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

The Series C Bonds have the following debt service requirements (in thousands):

Years Ending June 30	Principal	Interest
2013	$ -	$ 18,587
2014		18,587
2015		18,587
2016		18,587
2017		18,587
2018-2022		92,933
2023-2027		92,933
2028-2032	112,203	65,873
2033-2037		59,108
2038-2042	45,000	47,858
2043-2044	143,000	9,009
Principal outstanding and interest	300,203	460,649
Add (deduct) accreted value on bonds outstanding	645	(645)
Total Series C Bonds	$ 300,848	$ 460,004
Total bonds	$ 3,033,586	$ 4,939,025

Activity of bonds payable during the year ended June 30, 2012, is as follows (in thousands):

	Beginning Balance	Issuances	Accretion	Payments	Ending Balance	Current Portion
Series A Bonds:						
Capital appreciation bonds	$ 55,485	$ -	$ 3,494	$ -	$ 58,979	$ -
Term bonds	1,543,770	-	-	-	1,543,770	-
Total Series A Bonds	1,599,255	-	3,494	-	1,602,749	-
Series B Bonds:						
Capital appreciation bonds	294,663	-	19,226	-	313,889	-
Term bonds	816,100	-	-	-	816,100	-
Total Series B Bonds	1,110,763	-	19,226	-	1,129,989	-
Series C Bonds:						
Capital appreciation bonds	2,672	-	176	-	2,848	-
Term bonds	298,000	-	-	-	298,000	-
Total Series C Bonds	300,672	-	176	-	300,848	-
Total bonds outstanding	3,010,690	-	22,896	-	3,033,586	-
Less bond discounts	(7,208)	-	215	-	(6,993)	-
Total bonds payable — net	$ 3,003,482	$ -	$ 23,111	$ -	$ 3,026,593	$ -

Pledge of Employer Contributions Pursuant to Security Agreement — The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the System of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

12. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

13. CONTINGENCIES

Loss Contingencies — The System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

Gain Contingency — The System, besides receiving contributions from participants and employers, also receives legislative appropriations from special laws to cover the increase in benefits to retirees. There have been several acts, which established an increase of 3% in pension annuities every three years for those members who meet the requirements outlined by these acts (Act No. 10 of May 21, 1992, Act No. 207 of August 13, 1995, Act No. 221 of August 9, 1998, Act No. 40 of June 13, 2001, and Act No. 157 of June 27, 2003). Also, there have been other laws that granted additional benefits, such as, summer and Christmas bonuses, and medical plan contributions, among others. Most of the funds needed to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Nevertheless, the costs of pension benefits that increased from 1992 to 2004 were not received in full by the System from legislative appropriations.

On June 30, 2007, the System filed a reimbursement claim with the Office of Management and Budget of the Commonwealth to collect the remaining unfunded special laws appropriations. The final outcome of this claim cannot be presently determined; therefore, no receivable has been recorded in the System's financial statements.

14. SUBSEQUENT EVENTS

On July 6, 2012, loans with a carrying value of $53.5 million were sold to a commercial bank. As per a servicing agreement, the System will be in charge of the servicing, administration and collection of the loans at and after the closing date. A servicing fee will be charged by the System.

As discussed in Note 1, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which significantly amends the provisions of the System.

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REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

Year Ended June 30,	Actual Employer Contributions	Annual Required Contributions	Percentage Contributed
2012	$ 589,743	$ 2,019,467	29.20 %
2011	701,709	1,734,979	40.44 %
2010	534,275	1,459,774	36.60 %
2009	594,509	1,258,695	47.23 %
2008	581,285	1,191,275	48.80 %
2007	566,524	816,472	69.39 %

The above liabilities are for basic System benefits and selected System administered benefits.

See notes to schedules.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2012
(In thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Unit Credit (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$ 1,237,532	$ 27,645,786	$ 26,408,254	4.5 %	3,570,339	740 %
June 30, 2011	1,723,811	25,457,354	23,733,543	6.8 %	3,666,402	647 %
June 30, 2010	1,664,991	19,501,761	17,836,770	8.5 %	3,818,332	467 %
June 30, 2009	1,842,143	18,943,586	17,101,443	9.7 %	4,292,552	398 %
June 30, 2008	2,607,086	N/D	N/D	N/D	N/D	N/D

The above liabilities are for basic System benefits and selected System administered benefits.

N/D = Not determined

See notes to schedules.

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

NOTES TO SCHEDULES
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

1. SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

The schedule of employers' contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

The System's schedule of employers' contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employees' contributions, pension benefits, and the System's administration costs.

The information was obtained from the latest actuarial report as of June 30, 2012, and does not take into consideration the impact of Act No. 3, as discussed in Note 1

2. SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress provides information about the funded status of the System and the progress being made in accumulating sufficient assets to pay benefits when due.

The information was obtained from the latest actuarial report as of June 30, 2012, and does not take into consideration the impact of Act No. 3, as discussed in Note 1.

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